Hormel ANNUAL REPORT GEO. A. HORMEL & COMPANY, AUSTIN, MN 55912 / FISCAL YEAR ENDED OCT. 26, 1985

New Product Successes Shape Bright Company Future

1985


FRANK N STUFF
BACON

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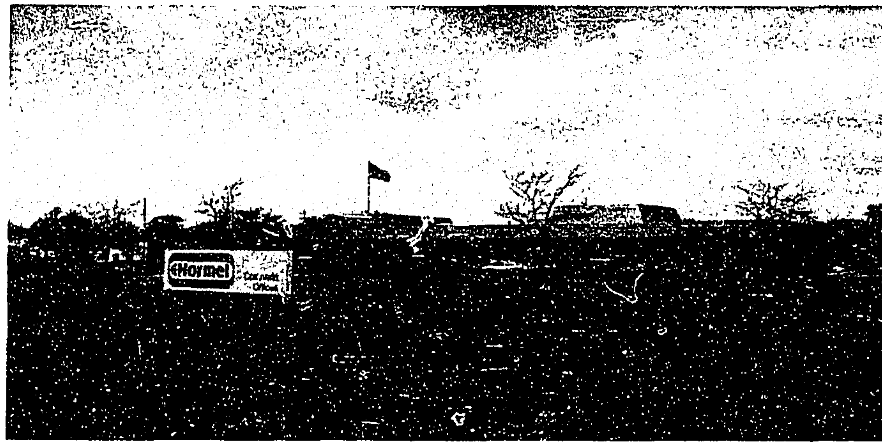


Corporate Profile

Geo. A. Hormel & Company, founded by George A. Hormel in 1891 in Austin, Minn., is a federally-inspected food processor engaged in the processing of livestock into meat and meat products, the production of a variety of prepared foods, both meat- and non-meat, and the marketing of these products throughout the United States.

The principal products of the Company are meat and meat products which are sold fresh, frozen, cured, smoked, cooked and canned. The products of the Meat Products Group include fresh and frozen meats, sausages, hams, wieners and bacon. The Prepared Foods Group products include canned luncheon meats, stews, chilies, hash and meat spreads.

The Company's products are sold in all 50 states by sales representatives operating in assigned territories coordinated from district sales offices located in most of the larger United States cities and by brokers and distributors who handle carload lot sales.

The Company has manufacturing plants in Austin, Minn.; Fremont, Neb.; Ottumwa, Iowa, and Springfield, Mo., that slaughter livestock for processing. In addition, processing plants are located in Algona, Iowa; Austin, Minn.; Beloit, Wis.; Dallas, Texas; Davenport, Iowa; Fort Worth, Texas; Houston, Texas; Knoxville, Iowa; Oklahoma City, Okla.; Renton, Wash.; Stockton, Calif.; Tucker, Ga., and Wichita, Kan.

Hormel also operates 10 distribution centers located along the West Coast, South Atlantic Coast, Gulf Coast and Hawaii. Their main function is to provide dry and cold storage facilities for the distribution of products to local market areas. Distribution centers are located in Charlotte, N.C.; Chattanooga, Tenn.; Hayward, Calif.; Honolulu, Hawaii; LaMirada, Calif.; Mobile, Ala.; Montgomery, Ala.; New Orleans, La.; Orlando, Fla., and San Antonio, Texas.

Wholly-owned subsidiaries of Geo. A. Hormel & Company include FDL Marketing, Inc., Dubuque, Iowa; Farm Fresh Catfish Company, Inc., Hollandale, Miss., and Algona Food Equipment Company, Algona, Iowa.

Hormel also operates in international areas, including the Philippines, Japan, Dominican Republic and in various European countries through Hormel International Corporation, a wholly-owned subsidiary. Hormel International Corporation owns a domestic corporation, Vista International Packaging, Inc., a food packaging company based in Kenosha, Wis.

There are numerous trademarks which are important to the Company's business. The more commonly-known trademarks are **Hormel, SPAM, Dinty Moore, Mary Kitchen, Cure 81, Curemaster, Black Label, Di Lusso, Little Sizzlers, Wranglers, Light & Lean, Super Select, Rosa, Homeland, Range Brand, Frank 'N Stuff** and **Broiled & Browned.** Product names appearing in boldface in this 1985 Annual Report to Stockholders are trademarks of Geo. A. Hormel & Company or its subsidiaries.

Hormel employs nearly 7,000 people and has approximately 5,700 stockholders.


cure 81
BONELESS HAM

Letter to Stockholders, Employees and Friends

For those of you who follow this report from year to year, you have possibly noted the building of a strong organization that continues to improve its performance while distinguishing itself from others in the industry.

By all measurements, fiscal 1985 must be recorded as the Company's finest. Record earnings and dollar sales were the result of an extraordinary performance throughout the organization. Creative and innovative marketing programs, coupled with highly-successful sales execution efforts and the professional management exemplified by our Operations Group people, were key ingredients to the year's success. And, despite continuing industry problems and the labor stoppage at the Austin (Minn.) plant, the corporation made significant progress toward reaching its longer-term objective of becoming a major food company.

In response to the various adversities experienced during the year, the Company explored new operational concepts. In that endeavor, superior alternatives to those traditionally followed were often found. Much has been learned and accomplished. The Company is more flexible and better prepared to meet the many new challenges and changes that continually confront the industry.

Looking back at fiscal 1985, I am extremely proud of all the people who contributed to the year's outstanding performance.

The Company's record sales resulted from sustained increases in market share for our already well-established consumer products, accompanied by the very successful introduction of a host of new products, all of which exceeded projected volume levels. The Meat Products Group and Prepared Foods Group enjoyed outstanding years. Each attained new record levels of sales volume and profitability.

The major effort to increase market share for existing products as well as newly-introduced food items was supported by the largest advertising and promotional budget ever. Expenditures exceeded $70 million — the highest by a wide margin and more than 50 percent above the previous year's level.

We regard these expenditures, which do not always have immediate tangible returns, as important investments for the future. New product introductions are expensive; nevertheless, the Company launched the largest number of new products in its history during 1985. At this point, it is difficult to find a failure within the group.

Significant progress is also noted in the Company's foodservice operations. This Division's development and growth make it a major contributor to the improved volume and profit performance of the Meat Products Group.

During the latter part of the fiscal year, a new subsidiary, FDL Marketing, Inc., was formed. This venture provides for the exclusive marketing of the total production from FDL Foods, Inc., with plants in Dubuque, Iowa, and Rochelle, Ill. The agreement includes a provision for acquisition within a two-year period. Results from the first months of operations provide promise that meaningful profits can be attained for the current year.

During the year, efforts to organize the corporation to more effectively accomplish its mission were continued. Charles D. Nyberg was promoted to senior vice president to oversee a group encompassing law, human resources and public relations. Robert J. Thatcher, vice president, was elected to the additional office of Company treasurer. He succeeded E. C. Alsaker, senior vice president, whose dedication and distinguished service to the Company spanned 36 years.

To support expanded responsibilities for the Operations Group under William R. Hunter, group vice president, James N. Rieth was advanced to the newly-created position of vice president of manufacturing. Along with that change, Don J. Hodapp, formerly general manager of the Fremont (Neb.) plant, was elected vice president of strategic planning and development. In other moves, Hunter was assigned the additional responsibility as chairman of Farm Fresh Catfish Company, Inc., a wholly-owned subsidiary, and James E. Hall, group vice president of prepared foods, was selected to assume new supervisory duties for the Company's Transportation and Distribution Department.

Within the Meat Products Group, a new Deli Division was established. Marvin F. Moes, vice president for the Dry Sausage Division, was appointed vice president for the newly-created Deli Division which now includes dry sausage.

You will note that the Company paid off in July the $25 million loan, reducing debt-to-equity below 21 percent for the first time in recent years. Additionally, the corporation renewed a three-year $50 million note to provide for expansion and possible acquisition opportunities. It is our intention to not only build internally but to acquire businesses that fit the Company's mission.

New profit and volume budgets for 1986 include improvement over the fine performance recorded this past year. It is projected that pork supplies will be flat during the first six months of the current year with anticipated improvement during the latter half. As a result, raw material costs should be relatively stable.

The inherent strengths of the corporation have been well demonstrated. We are confident the Company is well positioned to continue its quest to become a leader in the food field.

R. L. KNOWLTON
Chairman of the Board
President and Chief Executive Officer

FISCAL 1985 HIGHLIGHTS

- ★ Sales dollars exceed $1.5 billion for the first time in Company history.
- ★ Net earnings of $38,618,000 establish new record.
- ★ Supporting the many new market introductions and major core brands of the Company were expenditures in advertising and marketing that increased 50 percent to an all-time high of $70 million.
- ★ Fiscal 1985 capital additions rose 36.8 percent from the year-earlier level.
- ★ Cash dividend rate is increased for the seventeenth consecutive year. Hormel has a dividend payout record of 228 consecutive quarters, or 57 years.
- ★ An authorized two-for-one split of Hormel common stock was distributed September 3, 1985. In the past 25 years, Hormel common stock has split five times on a two-for-one basis. This means that every share owned in 1960 is now 32 shares.
- ★ Stockholders' investment totals $311,605,000, reflecting an increase of 10 percent.
- ★ Total assets reach new record high.
- ★ Working capital increases 43.9 percent.
- ★ Agreement with FDL Foods, Inc., Dubuque, Iowa, leads to formation of FDL Marketing, Inc., a wholly-owned Company subsidiary.
- ★ Hormel International Corporation signs new technical and licensing arrangement with Mexican-based firm.

The Year in Review

Fiscal 1985 was a notable one for Geo. A. Hormel & Company. It was a year in which sales, earnings and earnings per share advanced to record levels — a performance that was capped by equally impressive gains in working capital, stockholders' investment, total assets and book value per share, all of which ended the year highest in Company history.

Sales Dollars Surpass $1.5 Billion

Buoyed by a strong second half highlighted by a record fourth quarter, sales dollars for fiscal 1985 were higher than at any previous time in the Company's 94-year history. Total sales for the year climbed to $1,502,235,000, an advance of 3.3 percent, or $47,708,000, over the previous record of $1,454,527,000 established only one year earlier.

Creative and innovative marketing programs, supported by numerous product introductions and careful production planning, were major factors influencing this excellent performance. Increasing emphasis was also given to advertising and promotion with expenditures increasing 50 percent from the prior year to an all-time Company high of $70 million.

The improvement in sales was accomplished despite the strike by Local P-9 of the United Food & Commercial Workers (UFCW) union which shutdown operations in Austin for all but three weeks of the 13-week fourth quarter. The final quarter and year-end results reflect one month's sales by FDL Marketing, Inc., a wholly-owned subsidiary of Geo. A. Hormel & Company, which has an agreement to market the entire production of FDL Foods, Inc., Dubuque, Iowa.

Of major significance is the realization that the sales gains were accomplished through increases in processed, consumer-branded items which demonstrates the Company's progress in moving away from the highly-cyclical, commodity-type fresh pork items.

Net Earnings Set Record

The growth in dollar sales was accompanied by an exceptionally fine improvement in net earnings with a percentage increase that was the highest since 1979.

Net earnings for the year ended October 26, 1985, were $38,618,000, the highest in history, or $2.01 per share, following the earlier two-for-one stock split. This amounted to a 30.9 percent jump over fiscal 1984 net earnings of $29,492,000, or $1.53 per share, and a 17.9 percent increase over the Company's previous earnings record of $32,758,000, or $1.70 per share, set in fiscal 1980.

Earnings for the first six months trailed the corresponding first half of fiscal 1984 by 9.3 percent, but a substantial rebound in the third quarter pushed net income ahead of the year-earlier level. Adding to this favorable pace was the record-ending fourth quarter which produced net earnings of $13,910,000, a very impressive 83.4 percent increase.

Considerable tonnage was lost when second shift hog processing operations were discontinued at the Austin plant. However, the loss of that volume was offset with increased sales of high-margin, value-added packaged products and the successful launching of many new food items and line extensions that quickly earned consumer acceptance. A steady availability of raw materials at favorable prices also benefited Company operations during much of the year.

Fiscal 1985 earnings equaled approximately 2.57 cents on each sales dollar as contrasted to 2.03 cents in 1984.

Capital Additions and Depreciation

Company progress in recent years has been abetted by an aggressive capital investment program designed to construct, expand and modernize productive facilities. The capital improvement program continued on schedule with 1985 additions of $29,444,000, an increase of 36.8 percent from $21,529,000 in 1984.

Capital additions in the year ahead will continue to be directed toward the automation of manufacturing processes and acquisitions based on business strategies which meet corporate standards for quality products and service and return on investment with emphasis on processed value-added items.

Depreciation for the fiscal year was $28,087,000, slightly higher than the $27,056,000 charged to operations in 1984.

Cash Dividend Increased; Common Stock is Split

Over a period of many years, the Company has remained committed to a goal of paying dividends consistent with the long-term financial strength of the corporation.

In February, the Board of Directors increased cash dividends by 3.8 percent with the newly-established rate amounting to 13½ cents per share per quarter, or $.54 per year. This was the seventeenth consecutive annual increase in the common stock dividend. Only 11 companies of the more than 750 listed on the American Stock Exchange have a longer history of paying consecutive dividends.

In view of fiscal 1985's strong performance and future prospects, the Hormel Board voted to split the Company's common stock on a two-for-one basis, distributed September 3, 1985, to stockholders of record August 19, 1985. By bringing the stock price within a range of a greater number of investors, this action improves the trading characteristics of the stock.

Total dividends paid and accrued in 1985 amounted to $10,375,000, compared to $9,991,000 the prior year, for an increase of $384,000.

Pension Trusts

The Company's provision for current and past services for Employee Pension Trusts was $8,736,000 for the year. Past service costs are amortized over a period of 30 years from the date of inception or date of amendment of the plans.

Financial Strengths

The financial position of Geo. A. Hormel & Company at year-end was very strong as stockholders' investment, book value per share, total assets and working capital all improved.

Stockholders' investment totaled $311,605,000, an increase of $28,243,000, or 10 percent, over the prior year. Stockholders' investment per share rose $1.47 to $16.22 at the end of 1985 from $14.75 one year earlier. The Company has 19,213,032 shares of common stock outstanding.

Total assets reached a new record high of $560,939,000, an increase of $35,617,000 over the previous record of $525,322,000 established last year.

Working capital advanced for the fourth consecutive year. The total at year-end was $152,985,000, compared to $106,332,000 at the end of the previous year. This increase of $46,653,000 amounted to 43.9 percent.

Corporate Debt

On June 15, 1985, the Company redeemed $25 million in nine percent notes and, on September 1, 1985, $50 million in Three-Year Extendible Notes, issued in 1982 and bearing an annual interest rate of 13.25 percent, were redeemed.

The $50 million Three-Year Extendible Notes were replaced with private placement loans carrying an interest rate of 10.10 percent.

New Subsidiary is Formed

An important step completed during fiscal 1985 was the signing of a two-year marketing agreement with FDL Foods, Inc., Dubuque, Iowa, and the subsequent formation of FDL Marketing, Inc., a wholly-owned subsidiary of Hormel.

Under terms of the agreement, FDL Marketing serves as the exclusive marketer of all fresh and processed meats produced by FDL Foods, including branded products and private label and foodservice items. In addition, the arrangement permits FDL Foods, which operates plants in Rochelle, Ill., and Dubuque, to supply Hormel with fresh pork and to manufacture pork products under Hormel brand names.

The relationship utilizes the greatest strengths of each corporation. FDL Foods is recognized as a well-managed organization with good physical facilities, competitive wage rates and sound production capabilities. Hormel, in turn, is viewed as having efficient processing technology, great marketing experience and expertise and considerable financial strength. The opportunity exists for this unique fit to accelerate the sales growth and profit potential of both companies.

A separate provision of the agreement grants Hormel the option to purchase the stock or assets of FDL Foods during the term of the two-year agreement which expires August 29, 1987.

Human Resources

Financial and operating results do not provide the complete measure of a company's performance. The management of Geo. A. Hormel & Company realizes the great value of its employees and the contributions they make to attaining each year's growth objectives.

The approximately 7,000 people employed nationwide by Hormel are provided fair and competitive compensation and a wide range of benefits. In addition, this employment has remained fairly constant despite the troubled American meat industry which has suffered numerous bankruptcies, plant closings and loss of employment for thousands of people.

Labor agreements were satisfactorily negotiated at a number of plant locations in 1985. However, the Company has been unable to reach agreement with Local P-9 of the United Food & Commercial Workers (UFCW) union at its Austin (Minn.) plant. The union struck the plant August 17, 1985, after many lengthy negotiation sessions failed to produce an agreement that would provide the same industry-setting wage and benefit program that was earlier adopted by union employees at other Company plant facilities.

The strike has continued despite bargaining sessions and assistance of the Federal Mediation and Conciliation Service. The Company views the dispute as unfortunate since the wage and benefit package offered for 1985 is already greater than what nearly all other industry employees will be receiving two years from now in 1988. The Company feels it is unable to meet Local P-9's demands that would result in a further disparity of wages and benefits with competing meatpackers.

The health and safety of all employees continue to be matters of highest priority in the Company. Such emphasis is a practical necessity considering the labor-intensive work environment of plant facilities.

The Company currently meets or exceeds every requirement of the applicable Occupational Safety and Health Administration (OSHA) regulations. Although the Company's injury rate is already considerably lower than the industry average, as documented in a study by the National Institute of Occupational Safety and Health (NIOSH), efforts to further improve safety measures and a safe work environment continue to receive foremost attention.

International Operations

Hormel International Corporation handles the Company's business outside the United States. Fiscal 1985 was a challenging year as the strong U.S. dollar in relationship to foreign currencies limited export activities to 11 countries that have historically handled Hormel products. It was with considerable difficulty that the Company was able to maintain its distribution in these foreign markets.

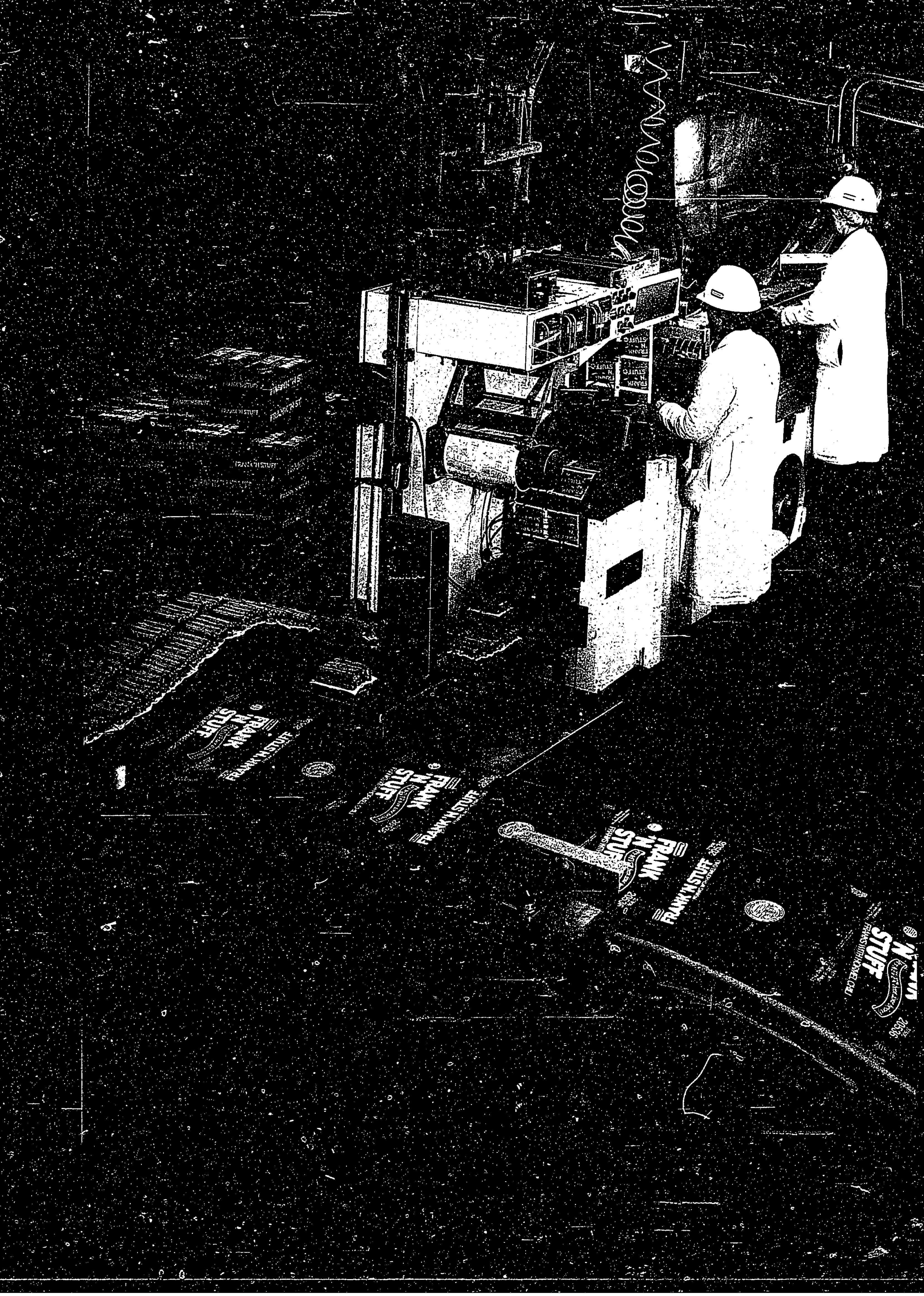
Technical service and licensing arrangements established in eight countries varied in success with the strongest results derived from Japan and the Philippines. Australia and England performed well but the currency exchange reduced revenues. Other countries delayed their planned Hormel programs due to the unfavorable economic conditions.

Hormel International's newest technical service and licensing arrangement was signed in late June with Industrializadora de Carnes de Sonora, S.A., in Hermosillo, Mexico. A new production facility now under construction will be opened in the fall of 1986.

Vista International Packaging, Inc., a wholly-owned subsidiary of Hormel International, ended the year with results below those of fiscal 1984. This was attributed to unanticipated competitive conditions for the marketing of tubular packaging items to the food industry.

Research evaluations and business discussions conducted in Thailand and Taiwan will hopefully lead to the formation of new business agreements in 1986.

Although the Company's international activities were less than budgeted, the year's performance exceeded planned return on investment objectives. It is anticipated that fiscal 1986 will provide a similar business environment with a weakening of the U.S. currency abroad expected during the latter half of the year.


FRANK 'N STUFF

Operations Group

The Operations Group continued its emphasis during fiscal 1985 on improving operating efficiency, producing a quality product and developing the latest technology. In a concerted effort to attain these important objectives, several aggressive strategies were employed. Among them, the Company's network of physical facilities — slaughtering or processing plants and distribution centers — were upgraded and modernized. Sophisticated equipment and processes were developed which led to the introduction of many exciting new products and the expansion of popular existing lines. Additionally, attention was given to identifying and implementing cost-effective measures that would further reduce waste and expense and enhance productivity.

The end result of this broad-based Operations Group commitment has been to ensure that the Company would remain in the forefront of the technology frontier and that the highest possible quality standards would continue to be reached without detracting from its role as a low-cost producer in the highly-competitive food industry.

NEW INVESTMENTS SPUR GROWTH

- ★ Algona (Iowa) dry sausage plant expanded by 36,000 square feet.
- ★ Ottumwa (Iowa) plant enlarged by 19,400 square feet.
- ★ Manufacturing, processing and packaging department improvements in Fremont, Neb., total nearly $5 million.
- ★ Additional **Broiled & Browned** sausage line installed at the Oklahoma City (Okla.) foodservice plant.
- ★ **Q-Pak** plastic food container used in the packaging of selected varieties of **Short Orders** individual canned servings
- ★ **Frank 'N Stuff** franks production lines opened at three new plant facilities — Fremont, Atlanta, Ga., and Seattle, Wash
- ★ Improved vacuum-packaging system for boneless hams and dry sausage products installed at five plant locations.
- ★ In Austin, Minn., robots lift bulk luncheon meat cans into retort crates, place picnic hams into automatic deboning machines, bacon slabs into a molding machine and transport packaging materials to various department locations.
- ★ Fat processing systems installed in Atlanta and Oklahoma City.

New Technologies

Introduction of one of the most successful meat products developed in years is attributed in part to the unique cooking technology designed by the Operations Group. Equipment installed at the Oklahoma City (Okla.) foodservice plant is at full capacity manufacturing the highly-acclaimed **Broiled & Browned** sausage. This new item is meeting a fast-growing need of the foodservice and retail food industry for quick and conveniently-prepared food products. Fully-cooked and browned, **Broiled & Browned** sausage fits the need as each skinless link is individually frozen and ready-to-serve after microwave heating.

Production capacities for **Broiled & Browned** sausage have more than doubled since its market debut early last year. In addition, this important new product has stimulated an impressive increase in Companywide pork sausage volumes.

Broiled & Browned sausage is the forerunner in what ultimately may develop into a complete line of precooked and browned meat and fish products.

An equally innovative concept announced at the close of fiscal 1985 involved the development of the **Q-Pak** container, the nation's first retortable plastic food container. Introduced after more than three years of extensive research, the lightweight container is currently used in the packaging of an assortment of **Short Orders** individual canned servings which are produced at the Beloit (Wis.) grocery products plant. The shift to this new package required only minor modification of existing manufacturing equipment.

Further application of this unique packaging concept, considered to be an initial step toward the development of a totally microwavable container, is anticipated for the future.

Slight modification of production equipment at the Stockton (Calif.) grocery products plant was necessary before start-up operations for **Hormel** chunky chili. Developed after thorough production and marketing research, this item is proving to be a popular extension of the diversified chili line marketed nationally by the Company.

Also during the year, manufacture of a reduced sodium version of **Hormel** chili with beans was begun at the Beloit grocery products plant. This product is formulated specifically for those consumers requiring smaller amounts of sodium in their diets.

New Product Production

Hormel snack sticks, the first product of its type to be manufactured by the Company, was introduced early in the year as an answer to the increasing demand for new and tasty snack foods. Available in four distinctive flavors — pepperoni, salami, ham sausage and beef sausage — this shelf-stable product is produced at the Austin (Minn.) plant. The planned installation in the year ahead of a high-technology coextrusion line in Ottumwa, Iowa, will substantially increase manufacturing capacities for this four-item line.

The Operations Group, working closely with the Prepared Foods Group, began production in 1985 of three new varieties of bits products. **Hormel** ham bits, **Hormel** pepperoni bits and **Hormel** Cheddar cheese-flavored bits were unveiled in mid-year

utilizing equipment and facilities also used for manufacture of **Hormel** bacon bits, the market leader in the real bacon bits category.

The new items not only offer consumers a new dimension in salad preparation but should benefit the Company by stimulating important growth for the entire line.

Magnifico Italian sausage and **Bavarian Brand** bratwurst, introduced last spring, are produced at the Ottumwa plant using equipment designed by the Operations Group. These ethnic sausages are the first of their kind to be promoted and marketed on a nationwide basis.

Production Capacities Increased

The outstanding popularity during the year of **Frank 'N Stuff** franks prompted the Operations Group to expand its Companywide production capacities for this unique product.

Requiring only a single production line at the Houston (Texas) meat products plant at the time of its market introduction in late 1984, the unparalleled demand for this revolutionary product necessitated the installation this past year of a two-line operation in Fremont, Neb., and separate one-line facilities at two other Company plant sites — Atlanta, Ga., and Seattle, Wash. As the demand for **Frank 'N Stuff** franks develops and planned line extensions are formulated, additional production arrangements will be required to accommodate anticipated future volume growth.

Increased capacity for manufacturing **Fast 'N Easy** precooked bacon became possible following modernization and new equipment installations at two plant locations. In Atlanta, this consisted of a second continuous microwave oven line and a new slicing and packaging system; in Austin, the conversion of a second microwave prefried bacon operation, originally for **Fast 'N Easy** ends and pieces, to a slicing line capable of handling **Fast 'N Easy** bacon slices, helped augment heightened production requirements. Also in Austin, a new continuous brine chilling system for **Fast 'N Easy** bacon, **Layout Pack** wide-shingled bacon and **Black Label** bacon, once used only for sausage products, now has the capability to generate similar productivity improvements to these product lines. By fiscal year-end, new sliced bacon lines designed to enhance yields and provide accurate and uniform package weights were installed in Atlanta, Austin, Fremont, Seattle, and Dallas, Texas.

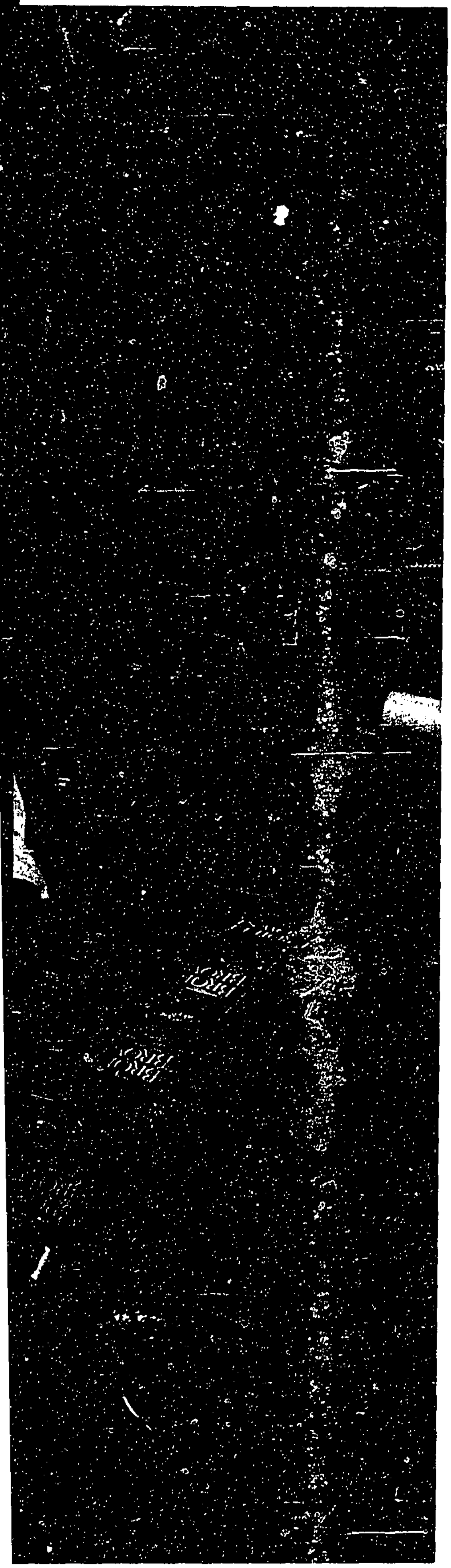
Equipment Installations

Vacuum-packaging of fresh pork products is another growth area which benefits from the energies and expertise of the Operations Group. In Ottumwa, a highly-automated system seals in retail package form a variety of specialty boneless pork items, including pork chops, roasts and tenderloins. Vacuum-packaging allows Hormel to offer products of consistent high quality that fit the new, active lifestyle of today's consumer. Retailers are able to reduce the time and labor associated with in-store processing and can easily merchandise the extended shelf life attributes of what has long been considered to be a highly-perishable product. In addition, vacuum-packaging helps pork retain its pink bloom — a specific quality consumers look for in the meat case.

Also in Ottumwa, improved yields have been achieved through the development of a meat recovery system that removes small particles of meat from bones which previously could not be trimmed by hand and, therefore, were lost in the manufacturing process. Installation of new automatic classifying systems in the Hog Cut Department has reduced labor requirements while providing for more accurate and uniform weighing of pork loins and ribs.

An improved system for vacuum-packaging of **Cure 81** ham, **Curemaster** ham and various dry sausage products was installed during the year at five plant locations. In Austin, Fremont, Ottumwa, Atlanta and Dallas, a streamlined operation vacuum-seals the products to their proper shape with the result that color stability is enhanced, shelf life extended and a more attractive package produced.

The best equipment the industry has to offer for massaging and tumbling of boneless hams is now in use at Company plants in Austin, Atlanta, Fremont, Ottumwa and Dallas. The new system provides for more accurate methods of determining the precise protein content of smoked and cured boneless hams and ensures that the Company is able to comply with new Protein Fat-Free (PFF) regulations introduced mid-year by the federal government.



An automatic casing declipper and labeling machine, designed by R & D corporate engineers to improve labor efficiencies in the packaging of dry sausage, was added to Company operations in Ottumwa, Algona and Knoxville, Iowa.

At the Austin plant, robotics continue to receive high priority. The loading of bacon slabs into a molding machine and the lifting of bulk luncheon meat cans directly into retort crates are functions now performed with ease and efficiency by specially-designed robots. Other recently-installed state-of-the-art technologies include a newly-developed automatic hog splitter that eliminates much of the heavy manual labor previously associated with this operation and a ham deboning machine which offers improved yields and labor efficiencies over manual boning of **Hormel** canned hams, **Light & Lean** ham and **Cure 81** ham, **Curemaster** ham and Perma Fresh luncheon meat. Robotic neck cutting systems will be introduced at major Company plant facilities in 1986. Automatic hog splitters are also being installed at Fremont and Ottumwa. A ham deboning system will soon be in operation in Fremont.

A unique breakthrough initiated during the year involved the freezing of boneless hams utilizing a process normally reserved for bone-in hams. This important development helps relieve the need for increased boning capacities during seasonal peak consumer demand periods, particularly before the Thanksgiving and Christmas holidays.

Improved operating efficiencies are already being realized following the installation this past year of a computerized inventory system at 12 grocery products facilities. This high-tech setup allows the Operations Group to forecast production needs and to achieve tighter product control.

Plant Additions and Improvements

The effectiveness of the Company's research, manufacturing and marketing depends significantly on the quality of the facilities in which the work is performed. During fiscal 1985, plant expansion and modernization programs designed by corporate engineers were either completed or in various stages of construction as the Operations Group continued with its comprehensive program to build an even more effective manufacturing network.

Construction was completed by calendar year-end of a 36,000 square foot addition to the Algona dry sausage plant. This 31 percent expansion of the existing building represents the second major enlargement since its opening 15 years ago. This plant, devoted solely to the production of specialized dry sausage products, now exceeds 151,000 square feet.

Included in the construction and renovation were expanded dry room facilities, a new shipping cooler/freezer area and dry storage room. Various manufacturing, processing and packaging departments were upgraded to provide new highs in efficiency and productivity.

Also installed in Algona is a new automatic pepperoni stick casing stripper developed by R & D corporate engineers. This provides important labor efficiencies and improved meat yields.

Expansion of the Ottumwa plant began early in the year, resulting in a 19,400 square foot addition that nearly doubled the capacity for production of **Di Lusso** genoa, **San Remo Brand** genoa, boneless and bone-in **Hormel** prosciutto hams and **Hormel** pepperoni. Existing dry sausage facilities were modernized which will further add to tonnage volume growth and faster inventory turnover.

In Hollandale, Miss., a 9,200 square foot addition to the Farm Fresh Catfish Company plant was completed during the year. The expanded facilities, combined with the highly-automated fish filleting lines, ensure maximum freshness and quality control while addressing important Company cost-containment efforts.

A sizable investment at the Stockton grocery products plant accommodated the installation of a high-speed canning line for **Hormel** chili, **Dinty Moore** beef stew and **Mary Kitchen** corned beef hash. Renovation of the manufacturing area provided for new automatic vegetable preparation equipment and improved refrigeration capabilities.

A very extensive program of modernization and renovation at the Fremont plant is in its second year with sweeping improvements affecting a large number of the manufacturing, processing and packaging departments.

Included in the multi-faceted, large-scale project is the expansion of the continuous inedible rendering system; installation of equipment for a Protein Fat-Free (PFF) line;

addition of a new vacuum-packaging unit for prepared sausage products; removal of the existing blast chill operation and replacing it with new and efficient chilling cabinets; renovation of the sliced bacon and market shipping departments, and upgrading of the plant's complete electrical distribution support system. Remodeling of the plant interior is also necessary to facilitate these changes and future planned improvements.

At Fremont alone, nearly $5 million has been invested during fiscal years 1984-85 to expand the plant facility, introduce new technology and modernize existing operations.

The Company completed its first full year of operation at the Dold Foods plant in Wichita, Kan., in mid-July. The 65,000 square foot plant continues to provide expanded manufacturing capacities for smoked meats, principally premium ham and bacon products.

Important contributing factors to this plant's fine performance in 1985 were the addition of a new slicing line for **Layout Pack** wide-shingled bacon and the installation of new processing and vacuum-packaging equipment for boneless hams. Dold Foods has proven to be both a low-cost processor and a premier supplier of selected meats to the retail and foodservice trade.

Refineries Division

A further renovation of equipment and operations, plus the development of new markets for edible and inedible by-products, highlighted activities of the Refineries Division in fiscal 1985.

Sales of deodorized products, including specially-formulated customized oils, would have enjoyed a record year had production operations at the Austin plant not been interrupted in mid-August by striking Local P-9 workers of the United Food & Commercial Workers (UFCW) union. Products for the bakery and foodservice industry and retail trade were not affected, however, and reported a strong gain of 50 percent from year-earlier levels. A new package design for a retail-packed lard item sparked new consumer interest, and lower-priced animal fats resulted in increased economies and improved sales for all product lines.

Modernization and expansion of refinery facilities continued at major Company plant facilities in 1985. One extensive project involved the complete upgrading of inedible rendering operations in Fremont. Obsolete and inefficient equipment is being replaced with a processing system that not only offers improved tonnage volumes but ensures the production of a higher-quality meat meal and inedible oil. An important part of the renovation was the start-up in mid-year of a new, modern and energy-efficient blood drier which employs a newly-developed concept of low temperature drying, resulting in a consistent, uniform product high in lysine. An ingredient product of this type is in great demand by feed manufacturers.

A fat processing system soon to begin operation in Oklahoma City is similar in design to one installed in 1985 at Atlanta. Both processes provide for the production of a higher-quality oil derived from precooked product operations such as **Broiled & Browned** sausage and **Fast 'N Easy** bacon.

The increased demand for ingredients used in the manufacture of feed also generated improved sales for the Refineries Division. In particular, a relatively new formulation requires the use of deodorized oils in the production of a calf/veal feed supplement. This new introduction provides the quality ingredients needed to ensure acceptability of finished feed to producers.

Feed Division

The Company's presence as a leading Midwest supplier of a complete line of quality, high-efficiency feeds continued to gain strength in 1985. New feed supplements were developed and existing lines improved in an effort to offer livestock producers greater flexibility in feeding programs.

The introduction of **Surepac** 42 percent pig starter supplement-HF is a valuable addition to a line that already included conventional grind-and-mix starter, sow gestation and hog supplements for on-farm feeding programs. The new addition is formulated to improve gains and feed efficiency in small pigs and establishes a high-energy, grind-and-mix program not widely available in the feed industry.

Improvement in the palatability of **Enpac** high-energy pig starter and sow rations

and **Basepac** dairy base mixes was completed during the year as part of a continuing program to help producers raise healthier, more productive livestock. Increased emphasis also centers on providing producers with customized feed rations via computers that are programmed to address their specific requirements for swine, beef or dairy herds.

The Hormel Experimental Farm conducts extensive research to determine the most practical, efficient and labor-saving methods of growing and finishing top-quality hogs. Studies also concentrate on the development of new feed supplements, proper nutrition and management techniques. In addition, new and existing Hormel feeds are regularly evaluated under actual farrow-to-finish conditions to verify that all established quality standards are met.

The 20 percent rise in sales reported for fiscal 1985 maintained the Feed Division's growth pattern of recent years. This positive trend is projected to continue as the network of independent feed dealers is expanded and the Company staff of professional sales representatives is increased.

Service to the Farmer

Experienced livestock buyers, working out of major plant facilities in Austin, Fremont and Ottumwa and at country buying stations located throughout the heart of America's farmland, are in daily contact with producers who raise high-quality hogs that offer the optimum amount of lean meat for processing. But paying hundreds of millions of dollars in cash for quality meat animals is not the only benefit Hormel offers the farmer. Additional services, many of them more than a half-century old, are provided by Company livestock buying experts and help bring about improved livestock production and marketing techniques.

For instance, Hormel buyers work closely with various farm organizations, agricultural colleges and government agencies to help promote research and educational programs. These roving swine specialists assist judging activities at county and state fairs and at national livestock expositions. They help organize and lend support to local pork producers' organizations and encourage and promote youth groups, such as 4-H and Future Farmers of America, by participating in livestock and meats practice sessions and related Hormel-sponsored contests.

Hormel buyers keep abreast of new trends and can talk authoritatively on all phases of modern agriculture, including livestock, market conditions and farming in general. Their understanding of changing farm developments is aided, in part, by the Hormel *FARMER*, now in its 48th year of publication, which reaches 15,000 livestock producers and other interested agricultural personnel. Company buyers, utilizing this broad-based farm knowledge, help with breeding stock selection and evaluation and sorting techniques that assure producers of receiving the best possible return.

In their constant effort to secure high-quality raw materials for processing, Hormel buyers are continuing a time-honored tradition of being in the forefront with ideas and services which may be developed into successful programs benefiting today's farm families. This commitment benefits both producers and consumers.

Hog Supplies

The difficult farm economy and widespread agricultural-related problems confronting American farmers again affected hog supplies during fiscal 1985. Producers kept hog inventories down throughout the year at a time when red meat and poultry supplies remained plentiful.

Hog supplies dropped approximately one percent in 1985 following a nine percent decline the previous year. The size of hog herds is not expected to increase substantially in the year ahead, according to U.S. Department of Agriculture forecasts which are based on projected farrowings during the second half of 1985. Lower than average prices paid for hogs during this period is another factor many believe will keep hog inventories low. Current forecasting suggests that supplies will be down two percent in the first half of 1986.

This decline may be offset, however, by a substantially improved survival rate of pigs per litter and the prospects for an excellent corn crop this past fall which would encourage producers to feed more grain to their livestock.


Hormel
'N
STUFF
STUFFED WITH CHILI!
7 DAYS BEYOND

NEW PRODUCT INTRODUCTIONS

- ★ **Frank 'N Stuff** franks
- ★ **Broiled & Browned** sausage
- ★ **Little Sizzlers** pork sausage (Hot & Spicy)
- ★ **Light & Lean** ham
- ★ **Light & Lean** luncheon meat (Smoked cooked ham and mesquite smoke-flavored ham)
- ★ **Hormel** snack sticks (Pepperoni, salami, ham sausage and beef sausage)
- ★ **Old Smokehouse** pork spare ribs
- ★ **Hormel** boneless pork
- ★ **Super Select** boneless pork
- ★ **Wranglers** bacon
- ★ **Fast 'N Easy** round bacon
- ★ **Magnifico** Italian sausage
- ★ **Bavarian Brand** bratwurst
- ★ **Old Smokehouse** beef sausage
- ★ **Rosa Grande** pepperoni
- ★ **Rosa Grande** lasagna and vegetable lasagna

Meat Products Group

Strong performances from many product line areas, including some of the newest, provided clear testimony to the exceptional strength and diversification of the Meat Products Group. Gains in virtually every segment led to excellent operating results for fiscal 1985 and will further solidify the foundation upon which future growth is to be based.

The year was characterized by substantially-increased sales volumes, plus an accelerated marketing program which doubled earlier efforts to introduce new product concepts while enhancing consumer interest in many familiar, regionally- and nationally-established product lines. This strategy led to major expenditures in marketing and advertising programs — investments which climbed to a fiscal year record-high for the Meat Products Group.

The continued movement away from commodity-based to value-added consumer product lines was clearly a primary thrust of the Meat Products Group. At the same time, equal importance was given to recognizing changing consumer needs and wants and being able to respond quickly to the latest in food and market trends with new and improved products.

Increased emphasis was placed on the many opportunities available to strengthen and broaden present business in the in-service and self-serve supermarket delicatessen. As a result, the former Dry Sausage Division became the Deli Division, providing the Meat Products Group with both the machinery and philosophy to better serve the deli customer.

The Foodservice Division also enjoyed a year of rapid expansion. The continuing emergence of the working woman and, correspondingly, the two-wage-earner household, coupled with the increasing share of family food dollars spent for meals outside the home, contributed markedly to this Division's role as an outstanding performer for the Meat Products Group.

Sales Exceed Expectations

Tripling expected sales goals and prompting the installation of additional production lines in Hormel plants across the country, **Frank 'N Stuff** franks completed its first full year of distribution in fiscal 1985. This inventive new product, which combines an all-meat frank filled with a tunnel of rich, great-tasting **Hormel** chili, is viewed by many as the Company's most explosive new market introduction in years.

Not only have retail sales climbed well above original expectations, but foodservice distributors are finding schools, hospitals and similar-type institutional outlets eager to add **Frank 'N Stuff** franks to their menu planning as well. Both retail and foodservice groups consider this newest taste sensation to be a fascinating alternative to ordinary franks.

Products for the Microwave

With nearly 50 percent of America's households now having a microwave oven — a figure expected to swell to 70 percent before 1990 — the convenience of preparing meals using this space-age technology continues to gain momentum. While appreciating this benefit, family cooks rarely used the microwave for fresh pork sausage because of the oven's inability to brown the product to its natural color. Hormel provided the solution with **Broiled & Browned** sausage, a product that offers both the convenience of microwave cooking with the familiar, traditional appearance of conventionally-cooked breakfast meats.

Foodservice operators were introduced to **Broiled & Browned** sausage at the start of the 1985 calendar year. Retail market debut began shortly afterwards with full national distribution reached by fiscal year-end.

Hormel is the first food processor to offer retail and foodservice outlets a pork sausage product developed specifically for microwave oven use. The growth potential is particularly promising. In addition, the opportunities available to expand the line to include both old and new products adaptable to microwave cooking are regarded as endless. In the future, precooked meat products should enjoy the same popularity already attained by microwave popcorn, microwave pizza and other foods.

New Variety Introduced

The Meat Products Group captured an even larger share of the expanding pork sausage category in fiscal 1985 by extending the very popular **Little Sizzlers** pork sausage line. The new hot & spicy variety, developed by the Company's own sausage specialists, contains a tangy, zesty natural seasoning.

Although strong sales and distribution were anticipated in southern regions where an ethnic preference for enjoying spicy foods is well-known, consumer response has also been highly favorable in the Midwest and in other less-likely market areas. This not only led to a steady demand in market penetration but also succeeded in further extending the appeal of its forerunner, **Little Sizzlers** pork sausage.

As a result, in the year ahead, consumers will see the new spicy version and the original item together in a joint advertising campaign. Special emphasis will be given to reaching Hispanic markets with a series of print and radio advertisements that speak directly to this important segment of the U.S. population.

Meeting Changing Consumer Needs

The demand for healthier foods to accompany healthier American lifestyles rose sharply in 1985. A "wellness" revolution continued to sweep the country with more and more consumers expressing concern about calories, sodium, sugar and other ingredients in their food. The Meat Products Group met the challenge of meeting consumer needs by expanding the **Light & Lean** luncheon meat line and placing increased emphasis on promotions for **Light & Lean** ham.

Completing its first full year in the marketplace, **Light & Lean** ham enjoyed great consumer acceptance in 1985. The addition of this new lower-calorie ham to the already existing **Cure 81** ham and **Curemaster** ham meant three major facings in the refrigerated ham section of the supermarket — significant in that it provided Hormel with a larger presence than ever before.

Light & Lean ham, the ham for people who wish to consume fewer calories but not necessarily eat less, was positioned throughout the year as a delicious substitute for other low-calorie entrees. In major circulation magazines such as *Reader's Digest, Family Circle* and *Woman's Day,* **Light & Lean** ham was shown to contain fewer calories per serving when compared to beef, fish and chicken.

Light & Lean ham was featured with another popular Hormel product, **Homeland** hard salami, at the *Family Circle* Magazine Cup, one of the most prestigious women's tennis tournaments in the U.S. Approximately 12 million sports-minded and health-conscious viewers watched the nationally-televised tournament in its second year of Hormel sponsorship.

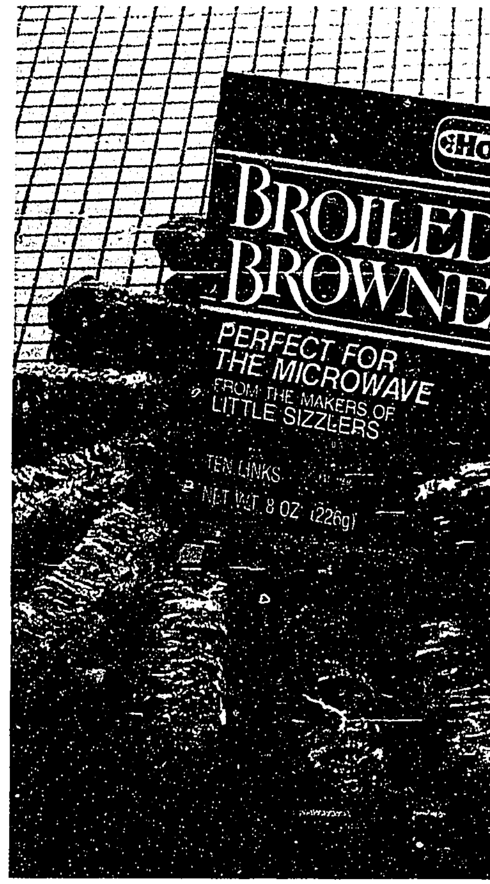
An important addition to the line in fiscal 1985 was **Light & Lean** mesquite smoke-flavored ham, certainly a natural extension when considering the popularity of this flavor in restaurants across the country. The new item and **Light & Lean** smoked cooked ham were both introduced in 8-oz. sizes. Including **Light & Lean** cooked ham, a mainstay of the calorie-controlled line of products, this raises to three the number of thinly-sliced ham varieties now marketed nationally in large family-size packages.

Produced only from closely-trimmed cuts of beef and pork, most items in the **Light & Lean** luncheon meat line offer 25 percent less fat and 15 percent fewer calories than regular Hormel luncheon meats. Many of the calorie-regulated products contain 25 calories or less per slice and carry high percentages of protein while retaining excellent taste and flavor attributes. With 19 varieties, **Light & Lean** luncheon meat provides diet-conscious and health-minded consumers with a full assortment of quality, sandwich-size products.

Snack Foods

The Meat Products Group entered the multi-billion-dollar — and fast-growing — snack market with an extended line of protein-rich dry sausage products.

The collection of four varieties — **Hormel** pepperoni, **Hormel** salami, **Hormel** ham sausage and **Hormel** beef sausage — entered selected retail markets last spring. A special air-tight vacuum allows the eight-stick package to be merchandised shelf-stable. This development provides the Company with tremendous versatility in marketing as the snack sticks can be displayed in most any area of the supermarket or convenience store, including the refrigerated luncheon meat case, the cheese and snack area, dry grocery section or at the checkout counter.



New Pork Products

Industry experts suggest that in-home entertaining has once again become fashionable and, according to recent surveys, one of the most popular forms is a casual get-together featuring the backyard barbecue grill. The Meat Products Group responded to this trend with the introduction of **Old Smokehouse** pork spare ribs, historically a favorite among family cookout experts.

Old Smokehouse pork spare ribs are conveniently precooked in a modern smokehouse and basted and dipped in the Company's own **Old Smokehouse** Bar-B-Q sauce. Ready to heat and serve, the pork spare ribs appeal to those taste- and time-conscious cooks who are also interested in meal variety.

Foodservice operators are equally enthusiastic about the newly-introduced pork spare ribs. The reduced cooking time is a labor-saving benefit and the prebasting is an additional time-saving convenience. Chefs can select whole slab spare ribs, sauced or unsauced, or pork loin back ribs. **Old Smokehouse** pork spare ribs with a hot and a mesquite smoke-flavored barbecue sauce are possible future additions to this line.

Fresh Pork Line Introduced

With consumers continuing to place a premium on those products that minimize kitchen preparation, ever-increasing emphasis has been placed on the development of new and convenient processed foods. Nowhere was the success of this strategy more apparent than with the completely new line of Hormel boneless pork cuts. Here a traditionally commodity-oriented product, such as a fresh, thick-cut pork chop, was re-introduced into the marketplace in a new format that met consumer preferences for highly-differentiated, value-added products.

Introduced into test markets in the final two months of fiscal 1985, the Company's line of prepackaged boneless fresh pork cuts is an industry first. Included in the 10-item line are pork loin chops, wafer cut pork chops, butterfly pork chops, thick pork loin chops, center-cut pork roasts, whole pork tenderloins and pork rib-end chops. The premium pork cuts are vacuum-packed in a variety of tray sizes.

The broad line of boneless pork cuts will enable Hormel to develop in the refrigerated fresh meat counter the same strong brand name identity already well established in other areas of the supermarket. The positive reception received to-date is encouraging. It has prompted plans to expand the line in early 1986 to include 10 more boneless cuts. In addition, consideration is being given to developing an assortment of bone-in pork cuts for merchandising under the Hormel label.

The new line of prepackaged pork cuts represents an extension of the increasingly-popular **Super Select** boneless pork program first introduced in 1982. Included in the variety of lean-trimmed, fresh, boneless products are roasts, center-cut pork chops, cubed steaks, fresh ham steaks, tenderloins, cubed pork and ham roasts. Retailers may market the tender-fresh items in their original vacuum-packed form or cut them into smaller, specialty retail portions to meet the specific needs of their customers. Sales of **Super Select** boneless pork increased 100 percent during fiscal 1985.

Bacon Products Meet Increased Demand

Making its marketplace debut in early 1985 was **Wranglers** bacon, a natural addition to the very popular **Wranglers** smoked franks line. The slightly-sweet, deep-smoked, thick-sliced bacon is produced especially for the true bacon aficionado. The warm and colorful package reflects the quality and savory flavor packed inside — a feeling clearly associated with **Wranglers** smoked franks.

Continued demand for precooked bacon in the foodservice trade, as well as product line extensions which addressed particular needs, helped make **Fast 'N Easy** round bacon a favorite of institutional accounts.

The universal popularity of the bacon cheeseburger has aided this growth — a trend that is certain to continue in 1986 and beyond. In addition, record numbers of breakfasts served away from the home have increased the demand for a precooked bacon that will deliver both convenience and labor savings. Even foodservice outlets which have not used precooked bacon on a regular basis are now testing **Fast 'N Easy** round bacon hoping to take advantage of its portion control and the excellent, complete coverage it provides hamburger buns and breakfast biscuits.

An extra-cook precooked bacon was introduced by the Foodservice Division in 1985. This crisp new product requires no additional cooking at the restaurant, commissary or convenience store.

Ethnic Products Meet Identified Demand

The Meat Products Group bolstered its image as a quality marketer of true ethnic sausages with the introduction in 1985 of two distinctive new items. **Magnifico** Italian sausage and **Bavarian Brand** bratwurst are produced using traditional, time-honored recipes developed by a Wisconsin sausagemaker. The special formulas, Old World seasoning and natural casings combine to create two flavorful products that also offer versatility for in-home or away from the home eating occasions.

The national rollout of **Magnifico** Italian sausage and **Bavarian Brand** bratwurst was completed early last year. The continued special attention given to aggressive advertising and merchandising programs is seen as providing the support needed for both products to become formidable additions to the Company's diversified product line.

Expanded Dry Sausage Line

Old Smokehouse beef sausage, another newcomer to the Company's growing product portfolio, improved its position in the retail marketplace in 1985. A premium product with special appeal, the holiday gift-giving season has developed into a very strong market niche for **Old Smokehouse** beef sausage. Each one-pound stick is packed in a decorative gift box.

In addition, the vacuum-packed, shelf-stable feature enables **Old Smokehouse** beef sausage to be positioned anywhere in the grocery store. Retailers enjoy displaying the gourmet beef sausage because it is convenient to merchandise and requires less in-store handling.

Another holiday favorite is Mini **Di Lusso** genoa. Merchandised as part of the nationally-marketed **Prima Festa** Italian gift box, this smaller one-pound cousin to the original **Di Lusso** genoa, along with **Hormel** piccolo salami and **Rosa Grande** pepperoni, provides a fine assortment of popular food deli products for family gift planners.

Rosa Grande pepperoni is also marketed exact-weight in 8-oz. or double-link form. The shelf-stable packaging encourages retailers to build attractive floor displays that improve brand awareness while moving consumer traffic into high-volume areas of the supermarket. Introduced in late 1983, **Rosa Grande** pepperoni has become a very successful addition to the **Hormel** pepperoni family.

Traditional Favorites

One of the Meat Products Group's traditional best performers — **Little Sizzlers** pork sausage — turned in a record sales increase for the second consecutive year.

The back-to-back substantial sales gain was attributed to a significant Company marketing principle predicated upon promoting not only the brand name and product but to illustrating appealing uses and recipe- and meal-planning suggestions as well. One exciting campaign continuing into fiscal 1986 involves a cooperative effort between **Little Sizzlers** pork sausage and *Betty Crocker* stuffing mix. A package-back coupon accompanied an easy recipe entitled "*Sausage Stuffing.*"

Another banner growth year is projected for **Little Sizzlers** pork sausage. Couponing and spot radio commercials will support both the long-standing favorite and the new hot & spicy version of **Little Sizzlers** pork sausage.

Challenging **Frank 'N Stuff** franks as the Meat Products Group's most promising new product entry in recent years is **Homeland** hard salami. Sales of the authentic Old World-style hard salami continue to exceed expectations. Retail and consumer trade response has been tremendous.

The comprehensive marketing effort behind this product included first-ever national network television and radio commercials, unique newspaper advertisements, in-store displays and a joint sponsorship with **Light & Lean** ham of the *Family Circle* Magazine Cup tennis tournament.

Hormel pepperoni maintained its leadership as the best-selling brand despite the unabated growth pace of the 150-million-pound category. The unmatched quality of the multi-item line and the year-round advertising campaign offering consumers new and innovative ways to use this hot-tasting favorite help perpetuate the outstanding year-to-year performance.

National network radio commercials were aired for the first time in **Hormel** pepperoni history and succeeded in establishing consumer knowledge of the many versatile ways in which it can be used. Encouraging listeners to "*Make it Taste Italian,*" the

radio spots were strengthened by four-color print advertisements which stressed that pepperoni is *"not just for pizza anymore."*

Cure 81 ham continued its strong category leadership throughout fiscal 1985 aided by an exciting and broad-based advertising program that reinforced twin messages of quality and reliability. Emphasis was given to a strong schedule of national television advertising that also included prime-time supplemental spot commercials in 20 of the largest U.S. markets. This ambitious campaign was complemented by a series of print advertisements in major magazines, plus a full-page, four-color coupon insert that extended into every marketing area of the country.

New Deli Division

Late in fiscal 1985, a major change in marketing emphasis occurred when a newly-named Deli Division replaced what long had been known as the Dry Sausage Division. This important step provided a clear indication of the planned commitment to the rapidly-expanding delicatessen industry and officially positioned Hormel and its Meat Products Group as a full-time supplier of ready-to-serve specialty items for this burgeoning market.

Industry analysts estimate that 56 percent of all supermarkets included a service deli counter in 1984, a sharp rise from the previous five-year period of nearly 40 percent. Today, deli sales are projected at $5.2 billion, a figure expected to climb to $6.5 billion by 1987. Undisputably, the popularity and growth of both in-store supermarket delicatessens and independent delicatessen operators are showing no evidence of abating.

With more than 150 delicatessen-style items in its line, the differing brands, colors and labels can draw attention away from the complete service and wide product variety Hormel is able to offer deli accounts. Consequently, a major effort for the Company's upgraded Deli Division in 1986 will be to coordinate a repositioning and promotional program that will effectively unify all Hormel deli products into one solid, recognizable line easily-identified by both retailers and consumers.

In another important move completed by fiscal 1985 year-end, all bulk deli products were converted to vacuum-packaging to ensure maximum versatility and a consistently fresh and quality appearance. In addition, deli loaves were marketed single-faced to enhance in-store slicing performance and improved customer visual appeal.

Foodservice Division

The U.S. retail food business is expected to continue as a significant factor in Company operations, just as in the past. Meanwhile, Hormel is expanding in a major way into the growing foodservice business.

Several new products contributed substantially to the Division's excellent year. **Frank 'N Stuff** franks and **Broiled & Browned** sausage, along with such traditional meat products as charbroiled ham steaks and **Hormel** cocktail smokies fared very well among mass-feeding establishments of all types and sizes. **Old Smokehouse** pork spare ribs, **Hormel** boneless pork and **Old Smokehouse** Bar-B-Q sauce, regular, hot and mesquite varieties, are additional new products seen as having great opportunity for foodservice growth.

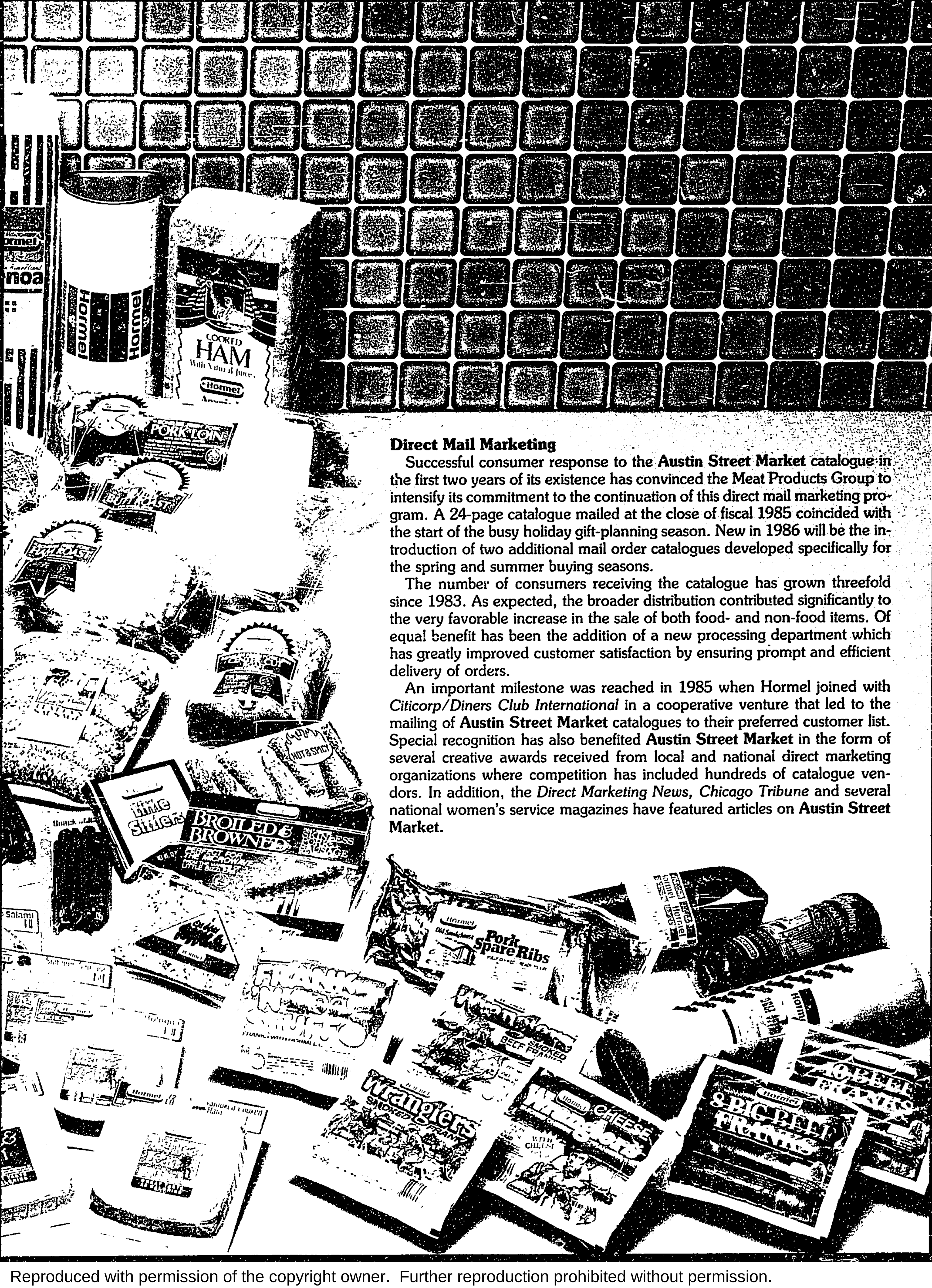
The strength of **Rosa Grande** lasagna and the entire line of frozen prepared entrees continued to expand. In its first full year of sales, **Rosa Grande** vegetable lasagna, although in limited distribution, was also favorably received.

The popularity of wieners rebounded and this long-standing American favorite enjoyed new favor in restaurants and other commercial foodservice operations. Bacon was another lucrative growth area as **Fast 'N Easy** bacon slices, round bacon, bacon bits and **Layout Pack** wide-shingled bacon each claimed a larger share of its respective market category.

Other important product lines sure to receive attention in the future include lower-calorie frozen entrees and "light" meals and snacks that address not only consumer changes in lifestyle but maintain foodservice needs for convenience and p ofit-making efficiency.

During 1985, 157 pages of advertising in six major trade publications featured Hormel foodservice products. Individual merchandising packages, including in-store posters, table tents, buttons, banners and true-to-size product replicas, plus participation in national and regional food shows and local distributor food shows, helped bring the Company's foodservice message to commercial- and non-commercial businesses and outlets that serve away from the home meals.


Hormel
Di Lusso
Genoa
Prosciutto
VEGETABLE LASAGNA
LASAGNA- BEEF IN SAUCE
Pepperoni
Genoa
Olive Loaf
Cure 81
Light & Lean
Ham
Range Brand
Black Label
Thick Sliced
Cooked Ham
HAM



Direct Mail Marketing

Successful consumer response to the **Austin Street Market** catalogue in the first two years of its existence has convinced the Meat Products Group to intensify its commitment to the continuation of this direct mail marketing program. A 24-page catalogue mailed at the close of fiscal 1985 coincided with the start of the busy holiday gift-planning season. New in 1986 will be the introduction of two additional mail order catalogues developed specifically for the spring and summer buying seasons.

The number of consumers receiving the catalogue has grown threefold since 1983. As expected, the broader distribution contributed significantly to the very favorable increase in the sale of both food- and non-food items. Of equal benefit has been the addition of a new processing department which has greatly improved customer satisfaction by ensuring prompt and efficient delivery of orders.

An important milestone was reached in 1985 when Hormel joined with *Citicorp/Diners Club International* in a cooperative venture that led to the mailing of **Austin Street Market** catalogues to their preferred customer list. Special recognition has also benefited **Austin Street Market** in the form of several creative awards received from local and national direct marketing organizations where competition has included hundreds of catalogue vendors. In addition, the *Direct Marketing News, Chicago Tribune* and several national women's service magazines have featured articles on **Austin Street Market.**


Thick'n Rich
Old Smokehouse
Hormel
BAR-B-Q
SAUCE
NET WT. 18 OZ. (510g)

NEW PRODUCT INTRODUCTIONS

- ★ **Old Smokehouse** Bar-B-Q sauce (Regular, hot and mesquite)
- ★ **Hormel** skinless and boneless chunk pink salmon (Regular or smoke-flavored)
- ★ **Hormel** chunk white and dark chicken (No salt added)
- ★ **Hormel** ham bits
- ★ **Hormel** pepperoni bits
- ★ **Hormel** Cheddar cheese-flavored bits
- ★ **Hormel** sliced dried beef
- ★ **CountrySide** salads (3-bean, 4-bean, German potato and garden)
- ★ **Hormel** chunky chili with beans
- ★ **Hormel** chili with beans (Reduced salt)
- ★ **NOT-SO-SLOPPY-JOE** sloppy Joe sauce
- ★ **Great Beginnings** entree makers (Beef, pork, turkey and chicken)
- ★ **Dinty Moore** chicken stew
- ★ **Hormel** scalloped potatoes and pepperoni
- ★ **Hormel** burrito grande
- ★ **Hormel** Mexicali dog
- ★ **Hormel** corn dog
- ★ **Hormel** jumbo corn dog
- ★ **Hormel** western corn dog
- ★ **Hormel** cherry dulcita
- ★ **Hormel** apple dulcita
- ★ **Gold'n Lite** breaded cheeses and vegetables (Cheddar cheese, pizza-flavored cheese, nacho-flavored cheese, onion/garlic-flavored cheese, mushrooms, zucchini, cauliflower and onion rings)
- ★ **Farm Fresh** catfish fillets
- ★ **Catfish Bobbers** catfish snacks

Prepared Foods Group

The Prepared Food Group's preeminence as a food marketer was never more evident than during fiscal 1985. It was a record-breaking performance with dollar sales and tonnage volumes again reaching an all-time high.

Pacing this year of solid improvement was the Company's Grocery Products Division. The overriding factor guiding its success was the quickening pace of new product introductions and line extensions and the ongoing commitment to established brands which, historically, have enjoyed leadership positions in their respective categories.

Marketing budgets rose sharply, more than 30 percent, as impetus was given to increased advertising and promotional spending for both proven brands and targeted new products viewed as having high potential for long-term growth. Complementing the unprecedented marketing effort were improvements in packaging, most notably the unveiling late in the year of a new, rigid, white plastic container to replace the century-old, two-piece steel container.

For the Industrial Products Division, the pattern of steady growth continued as both sales and unit volume reached record highs. Much of the year's accomplishments were attributable to the particularly strong focus on facilities, products and technology.

Adding new vitality and another exciting growth opportunity is the potential expanded use of gelatin by candy manufacturers. Newly-introduced jelly candies, such as gummi-berries and gummi-bears, contain five times as much gelatin as other traditional candy products. The overwhelming popularity of this new candy treat is expected to result in dramatic increases in total Companywide gelatin sales.

Also providing high long-range potential was the introduction by calendar year-end of sugar-free brand name private label gelatin desserts and instant and cooked puddings. Sold to large U.S. wholesalers and supermarket chain stores, this family of products represents a growing food category aimed specifically at satisfying the health-oriented needs of today's consumers.

National Debut

Consumer acceptance of many new product introductions in fiscal years 1984-85 far exceeded Company expectations. **Old Smokehouse** Bar-B-Q sauce, competing in a sharply competitive market, is a fitting example.

Two varieties, regular and hot, completed highly-successful test marketing programs and entered national distribution early last year. Supporting the national debut was a concentrated program of network and spot television commercials placed in daytime, late fringe and news and prime-access time periods.

During this same period, a third variety, mesquite smoke, was introduced which positioned Hormel as the only manufacturer offering this special flavor on a nationwide basis. In addition, the forerunner of the line, regular flavor **Old Smokehouse** Bar-B-Q sauce, was expanded to include a half-gallon size.

A special 4-oz. lightweight plastic cup, used in the introduction of **Old Smokehouse** Bar-B-Q sauce, was selected by *Food & Drug Packaging* magazine as winner of a "1985 Package of the Year" award. Competing against the giants of the fast-growing 280 million pound barbecue sauce market, the **Old Smokehouse** brand, in one short year, has already gained prominence as the fifth best-selling barbecue sauce in the marketplace.

New Chunk Items

Two demonstrably unique additions to the Company's versatile line of chunk products are **Hormel** skinless and boneless chunk pink salmon and **Hormel** skinless and boneless chunk pink salmon smoke-flavored. This raises to eight the number of chunk ham, poultry and fish products now sold nationally.

Following successful test market and regional distribution, the national rollout of **Hormel** no salt chunk white and dark chicken was completed. This specialty item is representative of a growing number of Company products which address the nutritionally-sound and healthy diet needs of today's consumers.

The volume of the chunk meats line declined in 1985, as did the entire category. However, **Hormel** chunk ham sustained its industry leading position, and the growth potential for **Hormel** chunk turkey and chicken products remains promising as per

capita consumption and consumer preference for these types of products continue upward.

New Varieties Introduced

With the increasing popularity of vegetables and lettuce consumption at an all-time high, more consumers are seeking uniquely different ways in which to add excitement into their salad preparation. In response to this demand, the Grocery Products Division backed up its already very successful **Hormel** bacon bits product with three newly-introduced varieties — **Hormel** ham bits, **Hormel** pepperoni bits and **Hormel** Cheddar cheese-flavored bits.

Placed into four initial sales districts, the three newcomers to the line bring into the marketplace a greatly expanded choice of flavorful toppings that have an almost unlimited number of uses in fresh salads, scrambled eggs, omelets, pizzas, potatoes, soups, tacos and dips.

The flagship product of the real bacon bits category, **Hormel** bacon bits, continues to sell extremely well. This popular product enjoys an overwhelming 82 percent share of total real bacon bits sales and a strong 20 percent share of the total flavored bits and seasonings category.

National Distribution Planned

Another example of the Company's new product thrust was the test market rollout late in the third quarter of **Hormel** sliced dried beef. Produced from 100 percent selected lean cuts of beef, this shelf-stable item is packed in reusable glass containers which provide the added convenience of allowing consumers to visually appreciate the high quality attributes of this product.

Marketed in 2½- and 5-oz. sizes, **Hormel** sliced dried beef helps expand the Company's image as a full-line, single-service supplier of prepared foods to the grocery trade. Nationwide distribution is scheduled during fiscal 1986.

Adapting to Consumer Trends

New product activity in 1985 was highlighted by the introduction of **CountrySide** salads, four distinct varieties of fully-prepared salads freshly packed in a new, modern-looking plastic container.

This exciting new line takes full advantage of the still-growing consumer trend for more nutritious, healthful and lighter meals which feature more fresh foods and vegetables. Recent changes in lifestyles and the accelerated pace of daily life have created a need for convenient, fully-prepared side dishes, either to complement a main course or as a meal in itself. **CountrySide** salads were developed with these contemporary consumers in mind.

Now in national distribution to the vending trade with full retail entry planned for early 1986, the "*Salads in a Snap*" line consists of 3-bean, 4-bean, German potato and garden varieties. An important feature is the product label which contains complete nutritional information for consumers wishing to maintain a balanced diet with moderate calorie intake.

Chili Line Expanded

Hormel chili, the No.-1 selling chili in America, ended the year with a near three percent sales gain, even while the total industry category was declining. **Hormel** chili outsells the No.-2 and No.-3 brands combined in a highly-competitive category that now exceeds 240 million pounds.

To strengthen the Company's leadership position, two new products — **Hormel** chili with beans (reduced salt) and **Hormel** chunky chili — were introduced nationally during the year.

Twenty-five percent of the salt has been removed from **Hormel** chili with beans. This specialty product, which meets tailored consumer tastes for reduced sodium content in their diets, is an example of niche marketing, or providing innovative and distinct products for specialized market segments. Hormel is the only manufacturer of a national canned chili offering the benefit of less salt.

Hormel chunky chili is a premium product formulated specifically to attract new users to the category. The to-date performance supports the successful strategy of strengthening the entire line by building consumer awareness, sales and market share.

It also illustrates the Company's ability to respond quickly to changing dietary customs and taste preferences.

A New Opportunity

A new and exciting product concept, **NOT-SO-SLOPPY-JOE** sloppy Joe sauce, presents another superb growth opportunity for the Grocery Products Division. Introduced early in the fourth quarter, initial results from selected test markets suggest this product will perform very well in the large and still-growing $410 million meat sauce category.

NOT-SO-SLOPPY-JOE sloppy Joe sauce will be positioned against the select few national brand names that operate with little or no competition in the sloppy Joe section of the supermarket. In an attempt to benefit from this unusual marketing challenge, the Company will rely on the canned meats leadership of its Grocery Products Division and the strength of the Hormel brand name to establish a market presence. Full national distribution is projected for the fiscal 1986 second quarter.

Planned Line Extension

Following two years of testing, fine tuning and development, the Grocery Products Division's novel can-in-a-carton packaging concept is coming closer to attaining the market successes originally planned. Known as **Great Beginnings** entree makers, the four-item line achieved coast-to-coast distribution in early 1985 and is now benefiting from the national introduction of two new varieties — chicken oriental and sweet-and-sour pork.

The two additions, like the forerunners in the line, can be used in an endless number of ways with such basic staple food items as noodles, potatoes, bread, rice, biscuits and vegetables. By using seasonings and other ingredients, a variety of recipes can be prepared, including stroganoff, chicken divan and other popular elegant or single-serve dishes. Future extensions of this line are receiving serious consideration.

Single-Portion Entrees

The newest additions to the family of **Short Orders** individual canned servings are **Dinty Moore** chicken stew and **Hormel** scalloped potatoes and pepperoni. Twenty-four items comprise the extensive array of single-portion meat and meat/pasta products offered under the **Hormel, Dinty Moore** and **Mary Kitchen** brand names to the retail, vending and mobile catering trade.

Of major significance was the decision to begin marketing nine selected varieties of the **Short Orders** line in the new and revolutionary **Q-Pak** (for quick, homemade quality) lightweight plastic containers. This move followed nearly four years of development work and reflects the Company's awareness of the importance packaging plays in today's competitive shelf-stable food marketplace.

The attractive, modern-looking containers are also dent resistant, easily stackable and offer a convenient easy pull-tab opening. Consumer tests also demonstrated a strong preference for foods packaged in plastic as compared to the traditional metal can, perceiving the new container as enhancing product freshness, taste and shelf-life.

The nine items now marketed nationally using the **Q-Pak** container are **Hormel** lasagna; **Hormel** spaghetti & Italian sausage; **Hormel** spaghetti and beef; **Hormel** noodles and beef; **Hormel** beef goulash; **Hormel** au gratin potatoes and bacon; **Dinty Moore** Brunswick stew; **Hormel** beans and bacon, and **Hormel** beans and ham. The unique container has application across a broad spectrum of processed foods, including meat, pasta, soups, sauces and entree products.

As the first to introduce this container, Hormel finds itself in the forefront as a pioneer in plastic technology. Recognition was given late in the year by *Food & Drug Packaging* magazine which chose the Company's **Q-Pak** container to receive first-place honors in its Packaging Achievement category.

New Frozen Foods

Also during the year, seven single-serve frozen specialties, including snack, entree and dessert varieties, were marketed nationally to the $15 billion vending industry. The new introductions included two Mexican-style entree items, **Hormel** burrito grande and **Hormel** Mexicali dog; three popular corn dogs, the regular **Hormel** corn dog, **Hormel** jumbo corn dog and **Hormel** western corn dog, plus two Mexican fruit

desserts, **Hormel** cherry dulcita and **Hormel** apple dulcita. These diversified new items, when combined with the extensive line of 7½-oz. hot food products, clearly position Hormel as a major supplier of everyday favorites and unusual specialties to vendors and mobile caterers.

While supporting and expanding traditional product categories, the Grocery Products Division is also committed to the acquisition of complementary product lines. Now in two regional markets is an eight-item retail line of frozen breaded hors d'oeuvres marketed under the **Gold'n Lite** label.

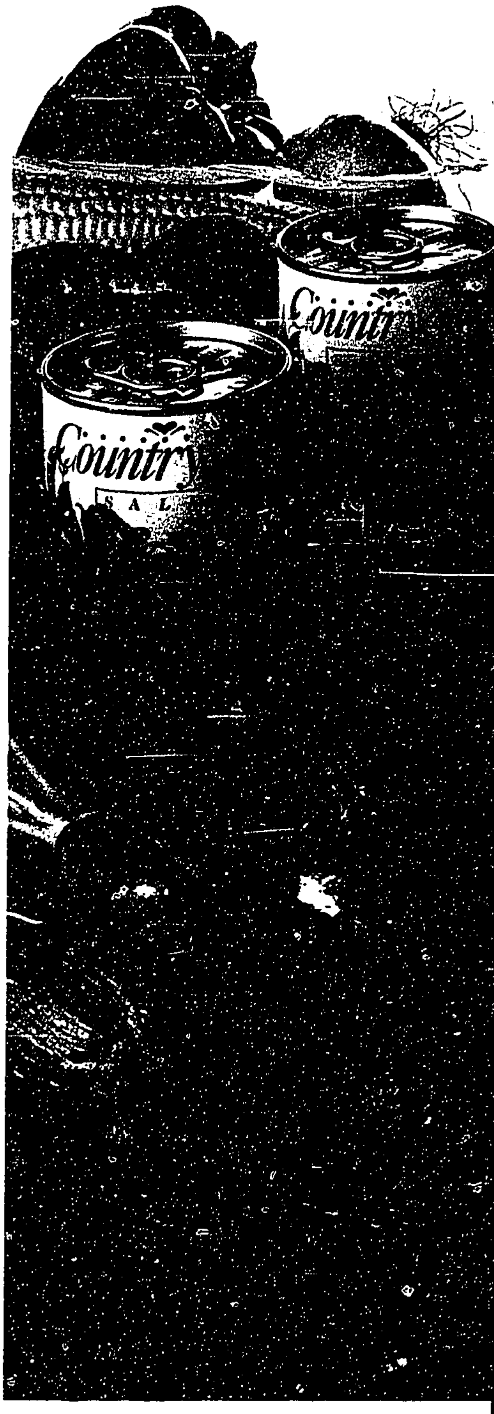
The **Gold'n Lite** line was acquired from a Midwest-based frozen foods processor. Hormel reformulated the products, added new items and developed new packaging. The line is being supported by spot TV commercials, full-page, four-color advertisements in *TV Guide* and *People* magazine and 35-cent, four-color coupons in selected Sunday newspapers.

Included are four breaded cheeses, Cheddar, pizza-flavored, nacho-flavored and onion/garlic-flavored, and four popular vegetable varieties, mushrooms, zucchini, cauliflower and onion rings. All the vegetable and cheese items are lightly-breaded and fully-cooked. To reheat, they may be oven-baked, microwaved or deep-fried. These convenient snack foods are quick and easy to fix, taste good and can be "eaten on the run."

During this same period, **Farm Fresh** catfish fillets and **Catfish Bobbers** catfish snacks were introduced under the **Farm Fresh** brand name, a direct result of the Company's acquisition in early 1983 of Farm Fresh Catfish Company, Inc. Catfish fillets and **Catfish Bobbers** catfish snacks are now available in 13 southern and midwestern states.

Farm-raised catfish is experiencing the greatest growth of all the fish species. It is making waves among consumers to the extent that sales are expected to grow 25 percent by 1989. **Farm Fresh** catfish fillets and **Catfish Bobbers** catfish snacks, consumed both as an entree and a snack or finger food, contain less than 300 calories per serving and are a perfect fit for the contemporary lifestyles of many consumers.

With the new popularity of catfish, large chain restaurants such as *Church's Fried Chicken, Bob Evans* and *Long John Silver's* are featuring this product with point-of-purchase materials and television advertising. This visibility and accompanying Hormel media support are already increasing consumer awareness and improving the growth potential of farm-raised catfish.



Long-Time Favorites

Increasingly, new products are vital to growth in the food industry, and the events of the past 18 months are a clear indication of the Company's commitment to an accelerated program of new product development and geographical expansion.

Balance must be kept, however, between the established and the new. While new varieties and extensions of existing product lines offer hope for the future, steadily increasing contributions to dollar sales and tonnage volume are also realized annually from many of the Grocery Products Division's best-known and best-selling food items. The strength and importance of long-standing consumer favorites are readily apparent as per capita consumption increases, market penetration deepens and distribution widens.

The most notable example is **SPAM** luncheon meat. The Division's flagship product posted a record-high 73 percent of all canned luncheon meat sales and gained three percent in volume during 1985 while the category itself was declining.

The base of this overwhelming popularity stems from the 50 million Americans who regularly purchase **SPAM** luncheon meat. To reinforce the brand's popularity with established consumers and to attract non-users to the category, extensive advertising and promotional activities were launched.

The most exciting element is the *"Instant Winner"* game whereby $100,000 will be awarded to consumers finding a secret slogan printed beneath the lid of a special **SPAM** luncheon meat can. At a cost of $1.5 million, this is the largest single merchandising effort ever undertaken by Hormel.

The *"It Just Might Surprise You"* radio commercials, aired nationally and in spot markets for the past two years, succeeded in highlighting the taste appeal and versatility attributes of **SPAM** luncheon meat. A newly-introduced, fast-moving television commercial, *"Out of the Blue,"* emphasizes another important factor — the mealtime convenience to homemakers when preparing this product.

Research studies determined that **SPAM** luncheon meat sales have a very high index in Hispanic markets. As a result, Hormel began running a series of Spanish radio commercials in selected high Hispanic population markets. The response has been excellent.

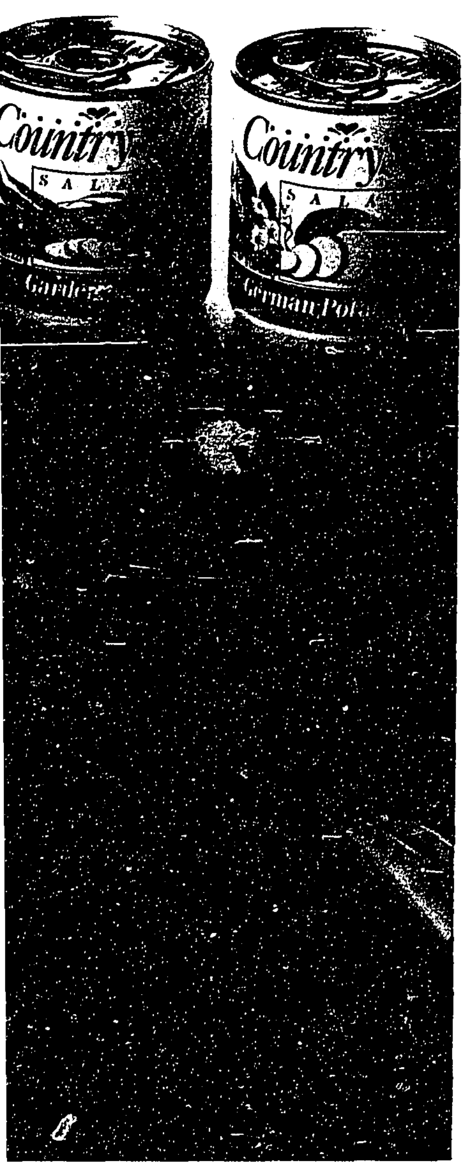
In a program aimed at modernizing **SPAM** luncheon meat to make it more compatible with today's fast-paced, nutritionally-oriented lifestyles, several new product improvements and line extensions are under consideration.

Several key changes, including new labels, product improvements and a more modern positioning, resulted in a strong resurgence for **Dinty Moore** beef stew. While the category increased nearly 30 million pounds during the past four-year period, **Dinty Moore** beef stew alone enjoyed sales gains approaching 10 percent annually. **Dinty Moore** has an impressive 70 percent share of the canned beef stew market.

A variety of items in the line were reformulated to include more meat chunks. The 40-oz. **Dinty Moore** beef stew now contains 18 beef chunks, a 50 percent increase; **Dinty Moore** chicken stew has been upscaled to include firm chunks of tender chicken, and beans have been added as a seventh primary vegetable for **Dinty Moore** vegetable stew. In conjunction with these changes, name revisions were introduced for **Dinty Moore** meatball stew and **Dinty Moore** vegetable stew. Now labeled as **Dinty Moore** 10 meatballs and **Dinty Moore** 7 vegetables, the name changes bring strong emphasis to the improvements made in each product. In addition, the new barbecue chili-flavored **Dinty Moore** burgerchunk stew is now being offered nationally.

Television commercials developed in 1985 also supported the **Dinty Moore** growth momentum. Each was designed to position **Dinty Moore** as **"the real meat and potatoes meal"** for families, singles and working couples. Continuing with the highly-successful campaign that features young actors and actresses, "Third Generation" television commercials were introduced which delivered a message that was informative, charming and entertaining.

At point-of-sale, Hormel rewarded users of **Dinty Moore** stew — 55 percent are children — with free stickers and sticker books featuring 24 specially-designed *Forestland Pals* characters. Additional items include a *Forestland Pals* map, lockets, a membership card and a special letter from **Dinty Moore.** The fun built into this promotion is designed to appeal to children and help them develop an interest in the **Dinty Moore** line.



Heavy advertising and promotional programs supported another key premium brand of the Grocery Products Division — **Mary Kitchen** roast beef hash and **Mary Kitchen** corned beef hash. A new, upbeat television commercial, *"Tootsie,"* was developed to increase brand awareness in the 13 high-consumption markets where over 60 percent of total hash sales are concentrated. New print advertisements, combining black-and-white cartoon characters with beautiful four-color photography, illustrate the many versatile and convenient ways to serve **Mary Kitchen** products.

The *"Flash 'em the Hash"* sweepstakes invited consumers to kick the dull mealtime routine by trying **Mary Kitchen** hash. New integrated tie-ins with *Creamettes, Mr. Coffee* and **Black Label** bacon provided additional recipe suggestions.

Industrial Products Division

Productivity gains and cost containment, especially those relating to manufacturing and distribution, are essential to margin improvement and maintenance of a strong competitive position. In Davenport, Iowa, site of the Company's gelatin/specialized proteins plant, greatly increased operating efficiencies and reduced costs contributed to a record performance level during fiscal 1985. This was accomplished by the attainment of better yields from raw materials; an improved program of energy conservation, and a significant upswing in tonnage.

Stringent microbiological standards blended well with round-the-clock production to assure not only higher volumes but better quality. Ancillary products — in particular, the wide variety of cosmetic-type proteins — have been well received in their respective markets and have enabled the Davenport facility to operate at near optimum efficiency.

Soup stock operations at the Austin (Minn.) plant reached its projected volume capacity. This resulted in dramatically-reduced operating costs and enabled the Company's domestically-produced product to compete on near-equal terms with comparable European-produced soup stocks.


Dinty Moore
Beef Stew
Dinty Moore
Burger chunk Stew
Hormel Chili
With Beans
Hormel Chunky Chili
Lite
Dinty Moore
Chicken Stew
Great Beginnings
Rich Gravy
Turkey Chunks
Beef Chunks
Thick 'n Rich
Old Smokehouse
BAR-B-Q SAUCE
Dinty Moore
Vegetables
Meatballs
Mary Kitchen
Corned Beef Hash
Roast Beef Hash
Savory Gravy
Pork Chunks
Golden Gravy
Chicken Chunks
SPAM
with Cheese Chunks
Smoke Flavored
Beans and Bacon
Chunk Ham
Chunk Turkey
Chunk Chicken
Chunk Pink Salmon
Not-So Sloppy Joe
Country Side
Lasagna
Dinty Moore
Noodles and Beef
Beef Goulash
Spaghetti and Beef
Spaghetti and Italian Sausage
Au Gratin Potatoes and Bacon
Beans and Ham
JUMBO CORN DOG
CORN DOG
CHERRY DELIGHT

The Hormel family of **Building Blocks** concentrated meat stocks, now in its second year of distribution, is gaining a highly-favorable response from major food companies. The naturally-flavored meat stocks, available in beef, ham, pork and meat (beef/pork) varieties, add body and delicious meaty flavor to soups, sauces, stews, gravies and pot pies.

Total soup stock sales registered an impressive 20 percent improvement in 1985. Combined with future expectations for the **Building Blocks** line, the Industrial Products Division is confident this business area has promising growth potential.

Bulk gelatin sales reached an all-time high in fiscal 1985, comfortably exceeding previous growth levels. More importantly, prospects for the future indicate a continuation of this trend.

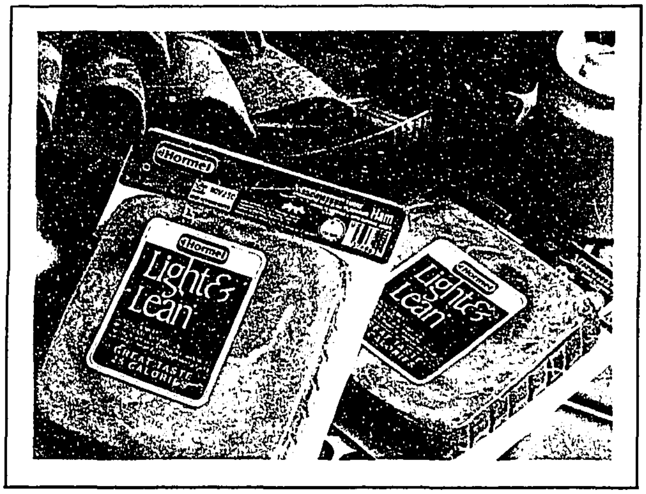
Contributing to this optimism is the advent of several new applications for gelatin use, a highly-conspicuous breakthrough that may lead to increased U.S. consumption of gelatin-based products and, correspondingly, a greater utilization of Company manufacturing capacities.

Of major importance has been the growing acceptance for a line of multi-flavored jelly candies whose origin and popularity can be traced to Europe. Now produced and marketed domestically as gummi-bears, gummi-berries or gummi-worms, this line of chewable candies has the capability of becoming one of America's most publicized and successful confectionery products. The popularity of these candies and the high percentage of gelatin included in their manufacture create a unique opportunity for the Industrial Products Division to generate new sales outlets for bulk gelatin.

The increasing consumer focus on weight control has opened a broad new market for a variety of products offering significantly fewer calories. In the gelatin dessert category, a long-term downward trend was reversed with the introduction of several new sugar-free products containing an aspartame sweetener called *NutraSweet.* As a result, sugar-free gelatin desserts, in only a three-year period, have already earned a 30 percent market share and show no signs of reaching their full market base.

Currently, Hormel is the only supplier of sugar-free desserts and instant and cooked puddings to existing and new private label accounts. Initial reception has been excellent; a new dimension in volume and growth is foreseen for this category line.

Product Portfolio



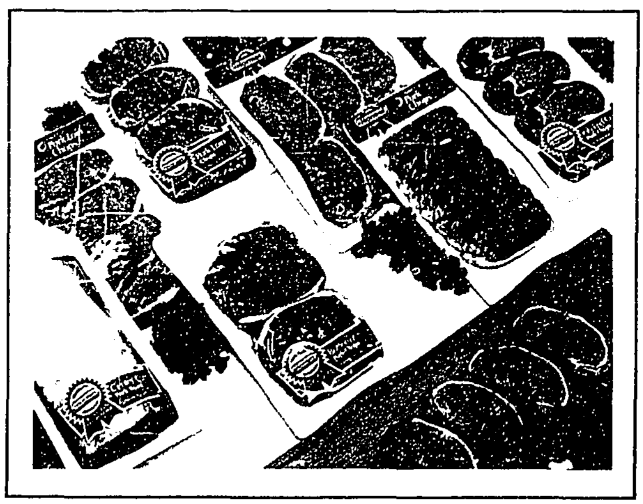
A new addition to the **Light & Lean** *luncheon meat line.*

This newly-introduced variety also meets changing consumer demands.

stribution to the retail and foodservice trade.

Magnifico *Italian sausage*

Sales of **Super Select** *boneless pork increased 100 percent during 1985.*



A new line of prepackaged boneless fresh pork cuts.

Fast 'N Easy *round bacon*

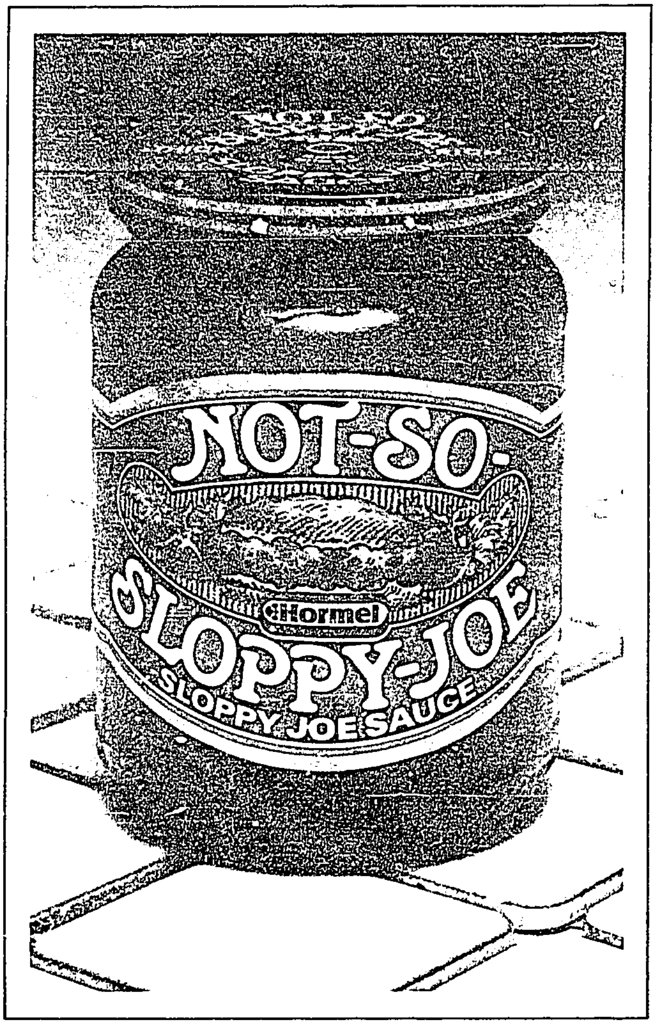
Has strong market appeal during the holiday gift-giving season

Rosa Grande *lasagna and the new four-variety line of snack sticks*

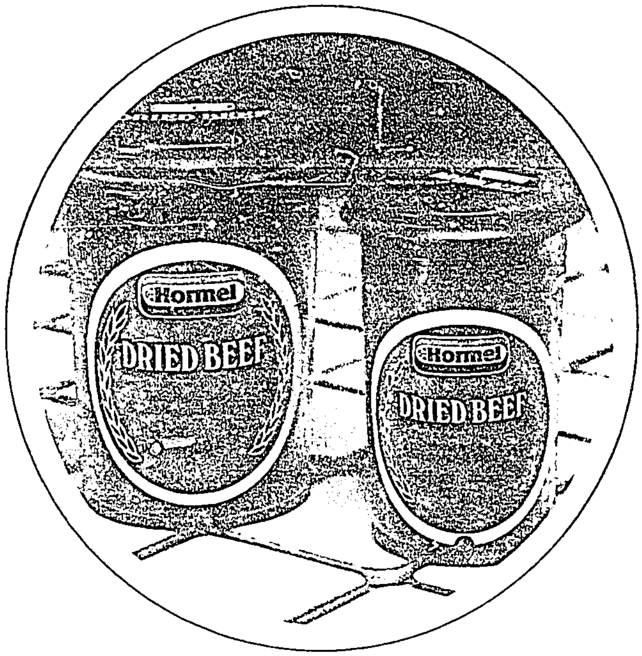
Cocktail sausages are a full menu meat item.

Bavarian Brand *bratwurst.*

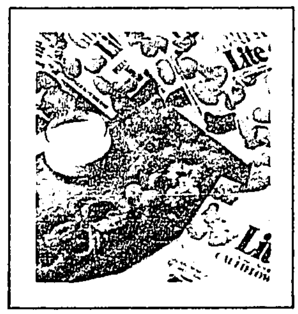
Product Portfolio



Full national distribution is projected for early 1986

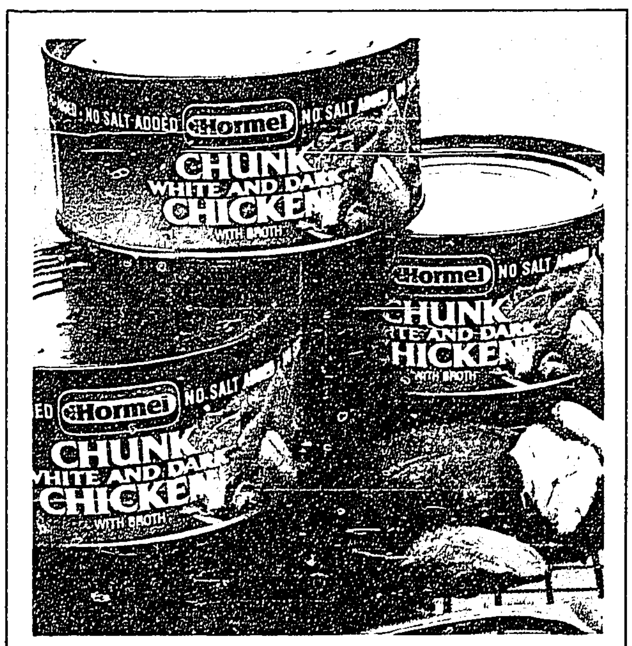


Marketed in both the 2½- and 5-oz sizes

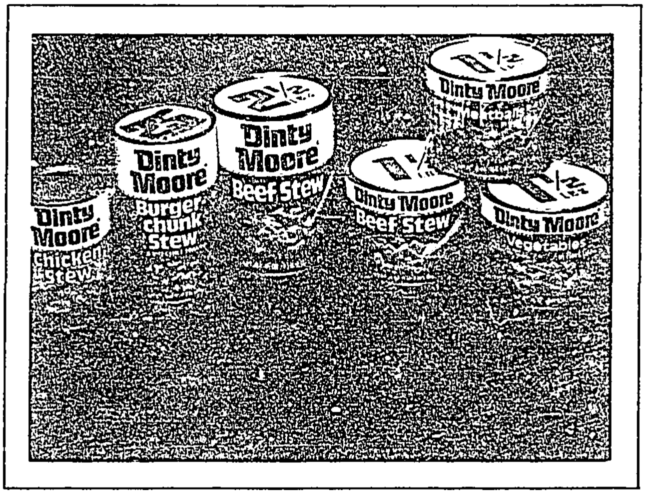


New frozen food snack and entree specialties

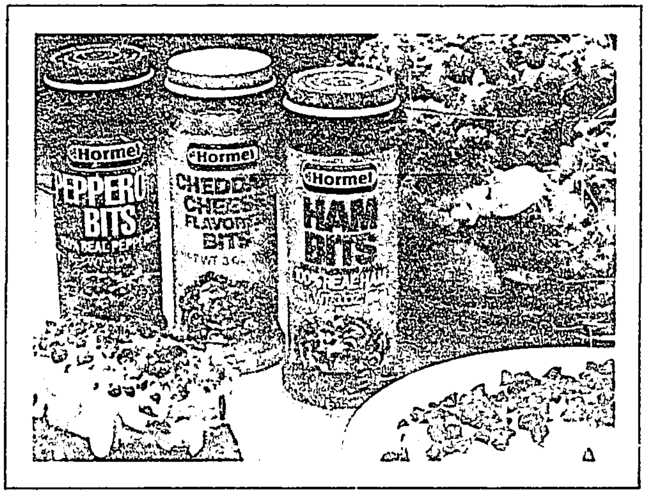
Coast-to-coast distribution has been achieved



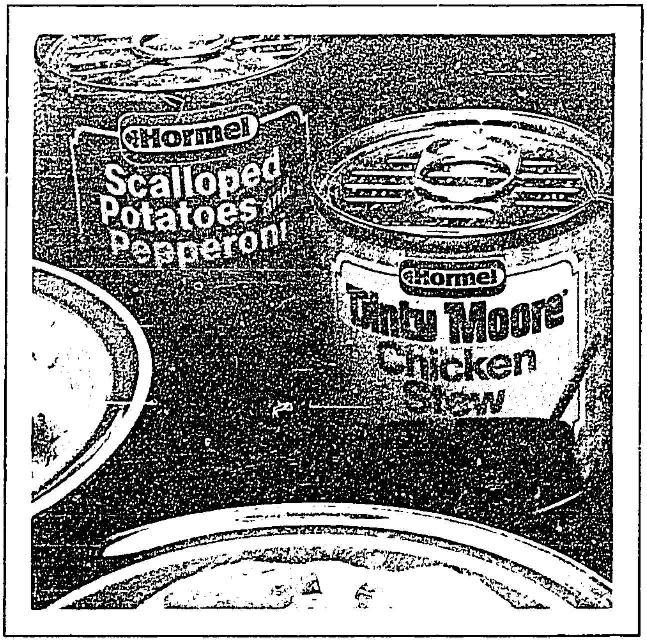
The market potential for low-sodium products is particularly promising



The multi-item line of **Dinty Moore** *products*

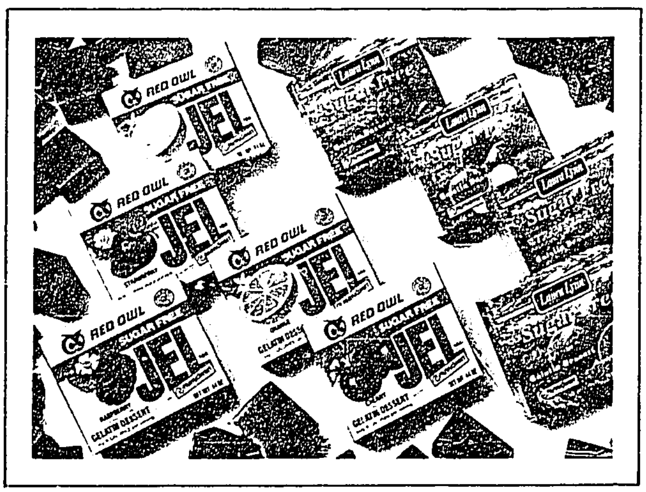


Three newcomers join the flagship **Hormel** *bacon bits product*

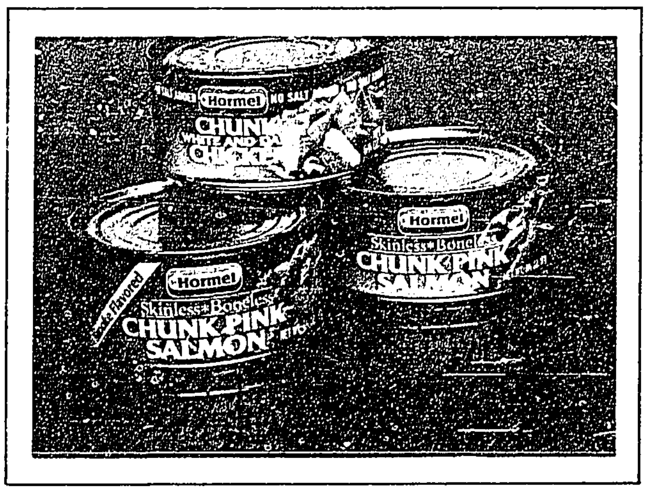


New additions to the family of **Short Orders** *individual canned servings*

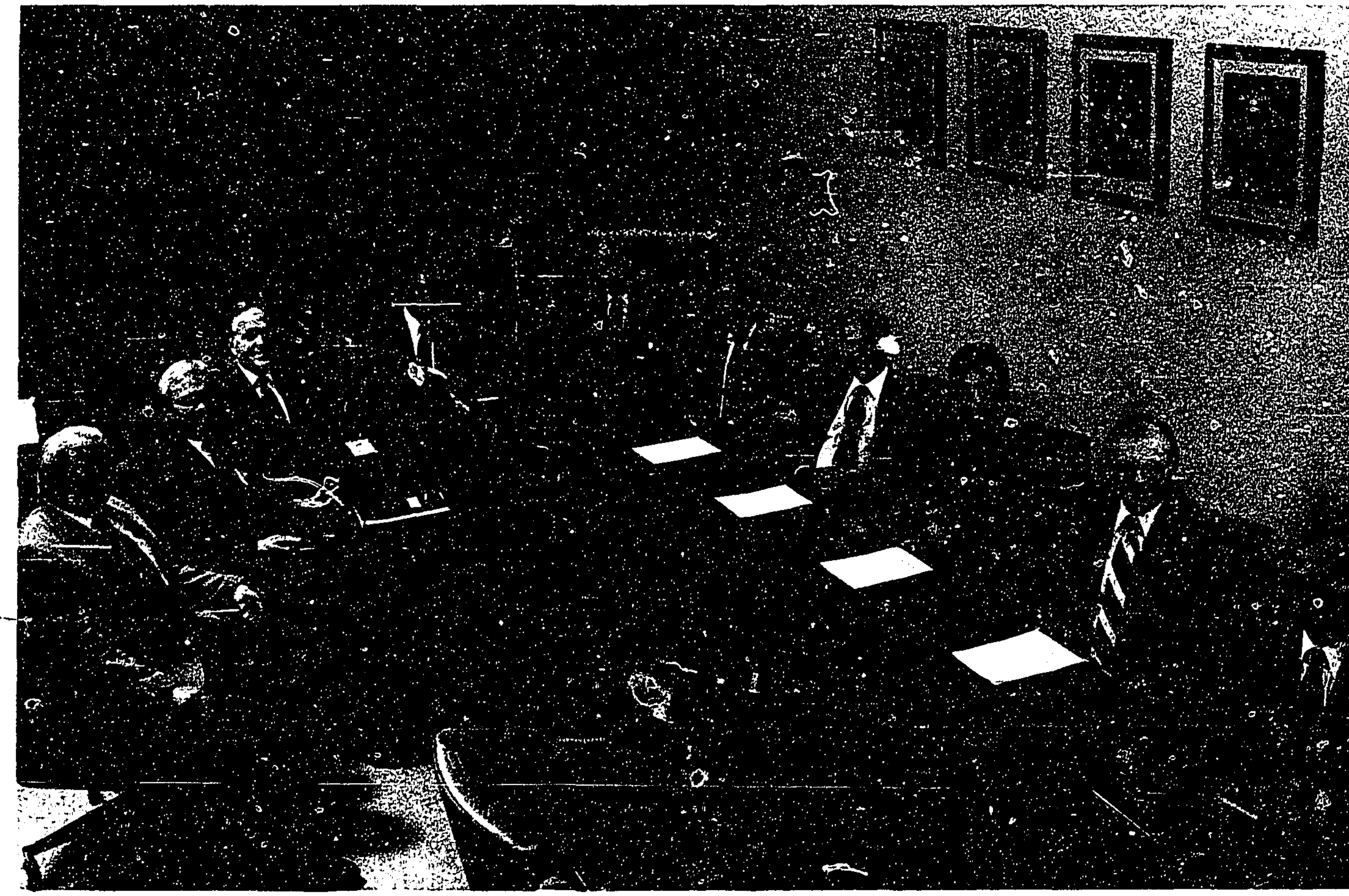
Introduced nationally during the year



Private label sugar-free gelatin desserts produced by Hormel



Eight chunk ham, chicken, turkey and fish products are sold nationally.



Members of the Board of Directors of Geo. A. Hormel & Company are shown here. Standing is R. L. Knowlton. Seated (left to right) are James A. Silbaugh; William R. Hunter; James E. Hall; DeWalt H. Ankeny, Jr.; Raymond J. Asp; Ray V. Rose; Clarence G Adamy; Geraldine M. Joseph, and Robert F. Potach. Absent: Sherwood O. Berg. Also pictured (seated, far right) is Charles D. Nyberg.

Officers and Directors

At fiscal year-end, the Board of Directors of Geo. A. Hormel & Company consisted of 11 members. Six were officers of the Company and five were non-employee directors.

The property, affairs and business of the corporation are managed by or under the direction of the Hormel Board. Regular meetings are scheduled throughout the year. Special meetings are called as needed. The Board held eight meetings during fiscal 1985.

In addition to these meetings, members serve on various Committees of the Board which concentrate on specific areas of responsibility. The principal functions of the Board's five standing committees are briefly described.

Personnel Committee
R. L. Knowlton,
chairperson
Clarence G. Adamy
Ray V. Rose

The Personnel Committee has three members, one an employee director and two non-employee directors. This Committee has the authority to review and make recommendations to the Board of Directors and to the Chief Executive Officer on matters relating to employee compensation, retirement, medical and life insurance benefits and executive development planning.

Contributions Committee
Raymond J. Asp,
chairperson
James E. Hall
William R. Hunter
James A. Silbaugh

The Contributions Committee has four members, all of whom are employee directors. This Committee is involved in reviewing charitable contributions, many of which are made to activities and organizations in communities where the Company operates. It evaluates the needs of various organizations and recommends the extent to which corporate financial support should be made available to worthy educational, humanitarian services and civic project endeavors.

Audit Committee
Geraldine M. Joseph,
chairperson
Clarence G. Adamy
DeWalt H. Ankeny, Jr.

The Audit Committee, composed entirely of non-employee directors, reviews activities and matters pertaining to the audit, including systems of internal control and accounting policies and procedures, approves services provided by the independent auditors and directs and supervises investigations into matters within the scope of its duties.

Pension Investment Committee
Robert F. Potach,
chairperson
William R. Hunter
James A. Silbaugh

The Pension Investment Committee has three members, all of whom are employee directors. This Committee reviews the investment results and strategies of the investment manager. In addition, it recommends to the Board the appointment of investment advisers or managers.

Executive Committee
R. L. Knowlton,
chairperson
Raymond J. Asp
James E. Hall
William R. Hunter
Robert F. Potach
James A. Silbaugh

The Executive Committee has six members, all of whom are employee directors. This Committee has most of the powers of the Board of Directors and can act when the Board is not in session.

CHANGES IN THE OFFICERS AND DIRECTORS

During the past year, a number of important executive changes occurred within the Company's management group. Early in the first quarter, Robert F. Potach was advanced to group vice president and given responsibility for all finance and administrative functions under a newly-formed Administrative Group within the Company's corporate structure.

Robert J. Thatcher, vice president, was elected to the additional office of Company treasurer. He succeeded E. C. Alsaker, senior vice president, who held the duties of treasurer for 16 years before ending an exemplary 36-year Hormel career with his December 31, 1984, retirement. Alsaker also retired as a member of the Hormel Board, a position he held for 15 years.

Announced in January was the assignment of James N. Rieth, vice president of strategic planning and development, to the newly-created position of vice president of manufacturing. In this position, Rieth assumed responsibility for all Company manufacturing operations, including canned meats, prepared sausage and smoked meats.

Don J. Hodapp, general manager of the Company's Fremont (Neb.) plant, transferred back to Austin, Minn., as the newly-elected vice president of strategic planning and development, a role which involves planning direction and specific programs leading to future corporate growth.

Late in the year, Charles D. Nyberg, vice president, was elected a senior vice president of the Company. In this expanded capacity, he was assigned responsibility for functions performed by the Company's Human Resources and Public Relations Departments. Nyberg retained his duties as general counsel, which involve supervision of the Law Department, and continues as corporate secretary of the corporation.

In a related move, James E. Hall, group vice president of prepared foods, was given the added responsibility for supervision of the Company's Transportation and Distribution Department.

A newly-named Deli Division, operating as part of the Meat Products Group, replaced what long had been identified as the Dry Sausage Division. Along with the upgraded Division name change, Marvin F. Moes, vice president, was named to handle marketing and sales of all ready-to-serve specialty items to the growing service and self-serve delicatessen market.

OFFICERS AND DIRECTORS

R. L. Knowlton
Chairman of the Board
President and Chief Executive Officer
Director since September, 1974

Raymond J. Asp
Executive Vice President
International and Trade Relations
Director since August, 1969

James E. Hall
Group Vice President
Prepared Foods
Director since September, 1984

William R. Hunter
Group Vice President
Operations
Director since July, 1979

Robert F. Potach
Group Vice President
Administration
Director since October, 1970

James A. Silbaugh
Group Vice President
Meat Products
Director since May, 1983

Left column (top to bottom): Robert F. Potach; Robert J. Thatcher; James N. Rieth, and Don J. Hodapp.

Right column (top to bottom): Charles D. Nyberg; James E. Hall, and Marvin F. Moes.

Stanley E. Kerber
Senior Vice President
Meat Products Group Marketing

Charles D. Nyberg
Senior Vice President
Law Department, Human Resources
and Public Relations
General Counsel and Corporate Secretary

Frank M. Brown
Vice President
Engineering

James DiNicola
Vice President
Meat Products Group Sales

Don J. Hodapp
Vice President
Strategic Planning & Development

David A. Larson
Vice President
Human Resources

Marvin F. Moes
Vice President
Deli Division

Robert F. Patterson
Vice President
Grocery Products Division

James N. Rieth
Vice President
Manufacturing

Robert J. Thatcher
Vice President
Treasurer

Robert G. Wells
Vice President
Pork and Beef Divisions

Richard W. Schlange
Controller

Walter B. Stevens
Assistant Treasurer
Finance and Bank Relations

Thomas J. Leake
Assistant Secretary

William O. McCormack
Assistant Secretary

Clarence G. Adamy,
Alexandria, Va.
Food Industry Consultant
Former President
National Association of Food Chains
Director since January, 1977

DeWalt H. Ankeny, Jr.,
Minneapolis, Minn.
Chairman of the Board and
Chief Executive Officer
First Bank System, Inc.
Director since December, 1983

Sherwood O. Berg,
Brookings, S.D.
President Emeritus of
South Dakota State University
Serves as chief-of-party of
Midwest universities and
Harvard group
managing Indonesian education
and training program
Director June, 1969-June, 1973
Re-elected November, 1976

Geraldine M. Joseph,
Minneapolis, Minn.
Director
International Program Development
Hubert H. Humphrey
Institute of Public Affairs
Director August, 1974-July, 1978
Re-elected April, 1981

Ray V. Rose,
Colorado Springs, Colo.
Food Industry Consultant
Former Supermarket Chain
Chief Executive Officer
Director since October, 1981

Executive officers of Geo. A. Hormel & Company are elected annually by the Board of Directors at the first meeting immediately following the Annual Meeting of Stockholders. However, vacancies may be filled and additional officers elected at any regular or special meeting thereafter.

It is noteworthy that the management changes described in this section involved executives who have devoted their business careers to Hormel. In building a strong and deep organization, the Company places great emphasis on internal growth and development.

QUESTIONS OFTEN ASKED

- ★ What is Geo. A Hormel & Company's ticker symbol and on which exchange is it listed?
- ★ What are the frequencies of common stock dividend declarations and changes to dividend payouts?
- ★ Where can a stockholder obtain a copy of the Company's Form 10-K?
- ★ Who acts as the Company's transfer agent and what is its responsibility in the handling of stockholder records?
- ★ Will the Company report to the Internal Revenue Service (IRS) the total amount of dividends paid for each stockholder account?
- ★ How can duplicate mailings of the Company's Annual Report and other materials mailed to my home be eliminated?
- ★ What is the date and site of this year's Annual Meeting?
- ★ If a stockholder or a member of the financial community has additional questions, who should he or she call or write?

Stockholder Information

Whether you are a new owner of Geo. A. Hormel & Company common stock or a stockholder of long standing, questions oftentimes arise regarding important matters associated with your ownership role. The information which follows addresses many of the questions frequently asked by Company stockholders.

Corporate Headquarters
Geo. A. Hormel & Company
501 16th Avenue N.E.
P.O. Box 800
Austin, Minn. 55912
(507) 437-5611

About Your Stock
Geo. A. Hormel & Company common stock is listed on the American Stock Exchange. The stock is listed as "Horml" in the stock table listings which appear in daily newspapers. The abbreviated symbol is "HRL."

Auditors
Ernst & Whinney
1400 Pillsbury Center
Minneapolis, Minn. 55402

Transfer Agent
The First National Bank of Chicago
One First National Plaza
Chicago, Ill. 60670

Communications concerning change in registered ownership and lost or stolen certificates should be directed to the Transfer Agent above.

The Transfer Agent has primary responsibility for the efficient transfer of Geo. A. Hormel & Company common stock, including maintenance of stockholder records and the cancellation and issuance of stock certificates.

Registrar
Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Ill. 60690

Stockholder Inquiries
Communications concerning dividends and change of address should be directed to Geo. A. Hormel & Company, %Corporate Secretary, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5298.

Additional Information
Media representatives and others seeking general information regarding Geo. A. Hormel & Company should contact the Director of Public Relations, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5334.

Security analysts, portfolio managers and other investors seeking financial information about the Company should contact the Office of the Treasurer, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5950.

Reports and Publications
This Annual Report is just one of the sources of information about the Company available to stockholders and the general public. Some of the other sources include:

Form 10-K to the Securities and Exchange Commission
Available in January, this Report provides further details of Geo. A. Hormel & Company's business. Stockholders of record and/or beneficial owners of the Com-

pany's stock may obtain, without charge, a copy of the most recent Form 10-K. A written request should be directed to Geo. A. Hormel & Company, %Director of Public Relations, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5334.

Notice of Annual Meeting and Proxy Statement

Mailed in January, this publication provides biographies of the nominees for the Board of Directors, details of the shares of Hormel common stock they own and a description of their principal affiliations with other companies or organizations. The proxy statement also describes the items of business to be voted on at the Annual Meeting.

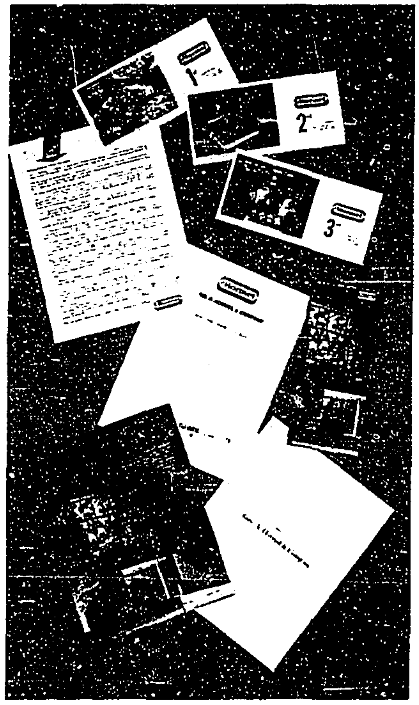
Accompanying the proxy statement is the proxy card which should be signed, dated and returned promptly to ensure that all shares are represented at the meeting and voted in accordance with instructions of their holders.

Quarterly Reports

Mailed to each stockholder in February, May, August and November, these reports contain financial information and other current news about the Company.

Report on Annual Meeting of Stockholders

Mailed to each stockholder in February, shortly after the Annual Meeting, it summarizes the activities which transpired, providing a complete text of the chief executive officer's address and the results of voting on items of business.



A variety of materials provide stockholders and the general public information about the Company.

Duplicate Mailings

Sometimes stockholders receive duplicate mailings of the Company's Annual Report, quarterly reports or other publications despite efforts to prevent them. This happens primarily because stockholders may own shares held in different though similar names. For example, Jane R. Doe may appear on one share of stock, but J. R. Doe or J. Rose Doe on others.

The Company is required by law to mail to each name on the stockholder list unless the stockholder requests that duplicate mailings be eliminated. If husband, wife and children own stock in their own names, reports will be sent to each unless the stockholder helps to eliminate this duplication by requesting only one copy.

Such requests should be directed to Geo. A. Hormel & Company, %Corporate Secretary, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5298. Send labels or label information indicating which name you wish to keep on the list and which names should be deleted. This will not affect dividend mailings.

Dividend Calendar

"Stockholder of record" refers to a stockholder who is entitled to receive a dividend on the "payable date" if he or she is listed as a Geo. A. Hormel & Company stockholder on the "record date" (approximately 30 days before the payable date).

Quarterly dividends are mailed so as to reach stockholders of Geo. A. Hormel & Company on the fifteenth of February, May, August and November.

Geo. A. Hormel & Company's Board of Directors typically declares the payment of a cash dividend each quarter. Since becoming a public company in 1928, Hormel has never failed to make a quarterly dividend — a payout record that now extends to 57 consecutive years. Over the long term, the Company expects to increase dividends consonant with increased earnings.

Tax Reports on Dividend Income

Geo. A. Hormel & Company is required to report to the Internal Revenue Service the total amount of stockholder dividends paid each year. Form 1099, which contains the information supplied to the IRS for each stockholder account, will be mailed to stockholders at the end of the calendar year.

Comments

Your comments concerning this 1985 Annual Report to Stockholders are welcome and may be directed as follows: Geo. A. Hormel & Company, %Director of Public Relations, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5334.

Hormel

FINANCIAL SECTION

THE YEAR AT A GLANCE

	1985	1984
Net Sales	$ 1,502,235,000	$ 1,454,527,000
Net Earnings	$ 38,618,000	$ 29,492,000
Per Share of Common Stock	$ 2.01	$ 1.53
Percent of Sales	2.57%	2.03%
Dividends to Stockholders	$ 10,375,000	$ 9,991,000
Per Share of Common Stock	$ .54	$ .52
Capital Additions	$ 29,444,000	$ 21,529,000
Depreciation	$ 28,087,000	$ 27,056,000
Working Capital	$ 152,985,000	$ 106,332,000
Stockholders' Investment	$ 311,605,000	$ 283,362,000

COMMON STOCK DATA

The high and low bid price of Geo. A. Hormel & Company's stock during each quarter of 1985 and 1984, respectively, and the dividends per share are shown below. Quotations were obtained from *The Wall Street Journal.* The number of stockholders at October 26, 1985, approximated 5,700.

	1985		1984	
Fiscal Quarter	*Cash Dividends Declared*	*Market Price Range*	*Cash Dividends Declared*	*Market Price Range*
First Quarter	$\$.13\frac{1}{2}$	$\$14\frac{3}{8}$–$16\frac{3}{16}$	$.13	$\$14\frac{1}{8}$–$17\frac{5}{16}$
Second Quarter	$.13\frac{1}{2}$	$16\frac{1}{4}$–$17\frac{1}{8}$	.13	$13\frac{1}{16}$–$15\frac{11}{16}$
Third Quarter	$.13\frac{1}{2}$	$16\frac{3}{16}$–$19\frac{3}{8}$	.13	$12\frac{3}{4}$–$13\frac{5}{8}$
Fourth Quarter	$.13\frac{1}{2}$	$18\frac{1}{2}$–$22\frac{3}{8}$	.13	14–$16\frac{5}{16}$

Figures have been retroactively adjusted to reflect the September 3, 1985, two-for-one stock split.

SELECTED FINANCIAL DATA

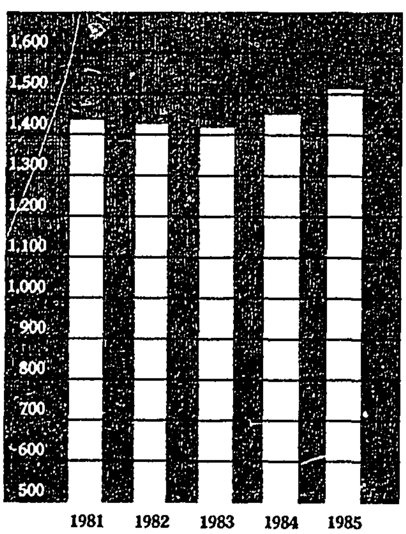
(Thousands of Dollars)

OPERATIONS	1985	1984	1983
Net Sales	$1,502,235	$1,454,527	$1,417,705
Net Earnings	38,618	29,492	27,897
Percent of Sales	2.57%	2.03%	1.97%
Wage Costs	233,512	241,210	250,724
Total Taxes (excluding Payroll Tax)	40,500	30,394	28,483
Depreciation	28,087	27,056	26,410
FINANCIAL POSITION			
Working Capital	$ 152,985	$ 106,332	$ 95,403
Properties (net)	264,679	263,929	270,103
Total Assets	560,939	525,322	512,559
Long-Term Debt — Less Current Maturities	64,334	56,695	82,164
Stockholders' Investment	311,605	283,362	263,861
PER SHARE OF COMMON STOCK**			
Net Earnings	$ 2.01	$ 1.53	$ 1.45
Dividends	.54	.52	.50
Stockholders' Investment	16.22	14.75	13.73

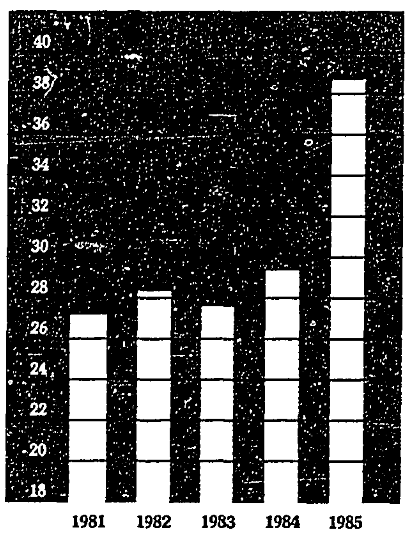
**53 Weeks*

***Figures per share for all periods presented have been restated to give effect for the two-for-one stock split which occurred during the year.*

NET SALES
(Millions of Dollars) $1,502.2

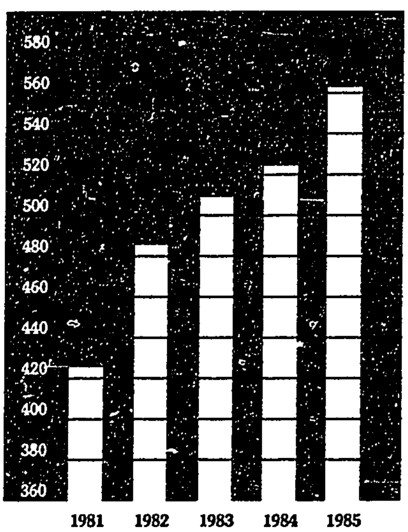


NET EARNINGS
(Millions of Dollars) $38.6

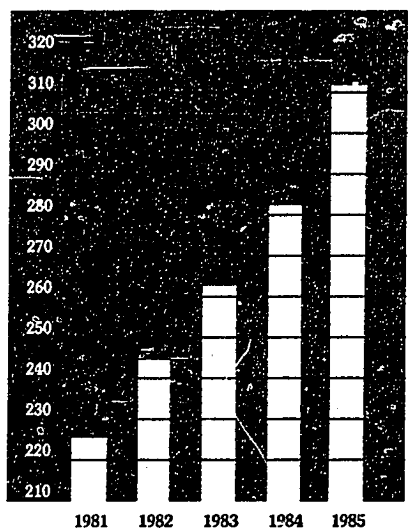


1982	1981*	1980	1979	1978	1977	1976*
$1,426,596	$1,433,966	$1,321,966	$1,414,016	$1,244,865	$1,106,274	$1,094,832
28,051	27,283	32,758	29,970	19,471	21,499	14,352
1.97%	1.90%	2.48%	2.12%	1.56%	1.94%	1.31%
269,964	270,522	254,303	233,878	201,633	192,590	180,236
22,805	18,796	28,077	27,635	17,997	22,857	13,844
17,587	13,887	13,452	12,102	11,551	11,312	10,697
$ 69,527	$ 59,440	$ 69,843	$ 84,646	$ 77,523	$ 68,479	$ 54,055
276,684	228,813	160,825	119,213	103,992	99,921	97,465
488,859	425,065	355,853	323,149	279,495	262,801	233,384
88,264	65,834	28,495	28,749	28,993	28,226	27,703
245,570	226,741	208,296	183,608	160,747	147,808	131,689
$ 1.46	$ 1.42	$ 1.70	$ 1.56	$ 1.01	$ 1.12	$ .75
.48	.46	.42	.37	.34	.28	.25
12.78	11.80	10.84	9.56	8.37	7.69	6.85

TOTAL ASSETS
(Millions of Dollars) $560.9



STOCKHOLDERS' INVESTMENT
(Millions of Dollars) $311.6



STATEMENTS OF FINANCIAL POSITION

GEO. A. HORMEL & COMPANY

	October 26, 1985	October 27, 1984
	(Thousands of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash	$ 19,460	$ 10,789
Short-term marketable securities—at cost which approximates market	49,279	39,383
Accounts receivable	107,767	84,753
Inventories	109,873	115,118
Prepaid expenses	2,089	2,358
TOTAL CURRENT ASSETS	288,468	252,401
INVESTMENTS AND OTHER ASSETS	7,792	8,992
PROPERTY, PLANT AND EQUIPMENT		
Land	3,768	3,819
Buildings	114,159	107,890
Equipment	315,174	299,370
Construction in progress	10,545	6,754
	443,646	417,833
Less allowance for depreciation	(178,967)	(153,904)
	264,679	263,929
	$ 560,939	$ 525,322

	October 26, 1985	October 27, 1984
	(Thousands of Dollars)	
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Notes payable	**$ 218**	$ 187
Accounts payable	**60,132**	43,694
Accrued expenses	**21,104**	16,905
Employee compensation	**35,970**	42,445
Taxes other than federal income taxes	**9,975**	9,652
Dividends payable	**2,594**	2,498
Federal income taxes	**4,924**	5,298
Current maturities of long-term debt	**566**	25,390
TOTAL CURRENT LIABILITIES	**135,483**	146,069
LONG-TERM DEBT — less current maturities	**64,334**	56,695
OTHER LONG-TERM LIABILITIES	**1,419**	967
DEFERRED INCOME TAXES	**48,098**	38,229
STOCKHOLDERS' INVESTMENT		
Common Stock, par value $.4688 a share — authorized 24,000,000 shares, issued 19,213,032 shares	**9,007**	9,007
Additional paid-in capital	**2,760**	2,760
Earnings reinvested in business	**299,838**	271,595
	311,605	283,362
	$ 560,939	$ 525,322

See notes to financial statements.

STATEMENTS OF EARNINGS AND EARNINGS REINVESTED IN BUSINESS

GEO. A. HORMEL & COMPANY

	Fiscal Year Ended October 26, 1985	October 27, 1984	October 29, 1983
	(Thousands of Dollars)		
Sales, less returns and allowances	**$1,502,235**	$1,454,527	$1,417,705
Costs and expenses:			
Cost of products sold	**1,185,078**	1,186,685	1,180,457
Selling and delivery	**203,558**	174,833	148,310
Administrative and general	**33,426**	29,809	27,816
Other income — net	**(2,959)**	(1,151)	(3,684)
Interest	**11,394**	11,069	14,039
	1,430,497	1,401,245	1,366,938
EARNINGS BEFORE INCOME TAXES	**71,738**	53,282	50,767
Provision for income taxes	**33,120**	23,790	22,870
NET EARNINGS	**38,618**	29,492	27,897
Earnings reinvested in business — beginning of year	**271,595**	252,094	233,803
Cash dividends on Common Stock (Per share: 1985–$.54; 1984–$.52; 1983–$.50)	**(10,375)**	(9,991)	(9,606)
EARNINGS REINVESTED IN BUSINESS — END OF YEAR	**$ 299,838**	$ 271,595	$ 252,094
EARNINGS PER SHARE	**$ 2.01**	$ 1.53	$ 1.45

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

GEO. A. HORMEL & COMPANY	October 26, 1985	October 27, 1984	October 29, 1983
	Fiscal Year Ended (Thousands of Dollars)		
Cash from operations:			
Net earnings	**$ 38,618**	$ 29,492	$ 27,897
Items not requiring cash:			
Depreciation	**28,087**	27,056	26,410
Deferred taxes	**9,869**	8,108	7,883
TOTAL FUNDS FROM OPERATIONS	**76,574**	64,656	62,190
Working capital changes increasing (decreasing) cash:			
Accounts receivable	**(23,014)**	(5,376)	359
Inventories	**5,245**	(25,146)	5,262
Other current assets	**269**	2,394	(157)
Current liabilities, except for debt changes	**14,111**	(14,738)	3,333
	(3,389)	(42,866)	8,797
TOTAL CASH FROM OPERATIONS	**73,185**	21,790	70,987
Financing activities:			
Decrease in notes payable and long-term debt	**(16,702)**	(204)	(8,149)
Dividends paid on Common Stock	**(10,279)**	(9,895)	(9,510)
	(26,981)	(10,099)	(17,659)
Investment in long-term assets:			
Purchases of property, plant and equipment	**(29,444)**	(21,529)	(15,709)
Carrying value of disposals of property, plant and equipment	**607**	647	443
Purchase of Farm Fresh Catfish Co. Inc. (excluding net current assets of $139,000):			
Property, plant and equipment			(4,563)
Long-term debt assumed			2,246
			(2,317)
Decrease (increase) in investments and other assets	**1,200**	1,648	(779)
	(27,637)	(19,234)	(18,362)
INCREASE (DECREASE) IN CASH AND SHORT-TERM MARKETABLE SECURITIES	**$ 18,567**	$ (7,543)	$ 34,966

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GEO. A. HORMEL & COMPANY

OCTOBER 26, 1985

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The financial statements include the accounts of Geo. A. Hormel & Company and all of its majority-owned subsidiaries after elimination of all significant intercompany accounts, transactions and profits. Investments in unconsolidated foreign companies are included in the financial statements at the Company's cost.

Segment Information: Hormel is engaged in a single business segment designated as "meat and food processing". As a federally inspected food processor, Hormel is engaged in the processing of livestock into meat and meat products, production of a variety of prepared foods, and the marketing of those products. Export sales account for less than 2% of sales. No customer accounts for more than 3% of sales.

Inventories: Inventories are valued at the lower of cost or market. Livestock and the materials portion of products are determined by the first-in, first-out method. Inventoriable expenses, packages and supplies are determined by the last-in, first-out method.

Oil and Gas Programs: Investments and other assets include $1,881,000 and $3,185,000 as of October 26, 1985 and October 27, 1984, respectively, representing investments in various oil and gas development ventures.

Property, Plant and Equipment: Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the related assets, primarily on a straight-line basis.

Pension Plans: The Company has several pension plans covering substantially all of its employees. The Company's policy is to fund pension costs accrued which includes amortization of prior service costs over a period of thirty years from the date of inception or date of amendment of the plans.

Income Taxes: Provision is made in the financial statements for deferred income taxes arising primarily from timing differences in accounting for depreciation for tax and financial reporting purposes. Investment tax credits are recorded under the flow-through method of accounting as a reduction of the current provision for federal income taxes.

Earnings Per Share: Earnings per share of Common Stock are based on the weighted average number of shares outstanding during the year. Earnings and dividends per share for all periods presented have been restated to give effect for the two-for-one stock split which occurred during the year.

Reclassifications: Certain prior years' balances have been reclassified to conform to the 1985 classification.

Fiscal Year: The Company's fiscal year ends on the last Saturday in October.

NOTE B — STOCKHOLDERS' INVESTMENT

Effective September 3, 1985 the Company declared a two-for-one stock split. Shares issued were increased from 9,606,516 to 19,213,032 and the par value per share was decreased from $.9375 to $.4688.

NOTE C — INVENTORIES

Inventoriable expenses, packages and supplies amounting to approximately $34,100,000 at October 26, 1985, $32,700,000 at October 27, 1984 and $25,300,000 at October 29, 1983, are stated at cost determined by the last-in, first-out method, and are $15,300,000, $16,300,000, and $16,400,000 lower in the respective years than such inventories determined under the first-in, first-out method.

NOTE D — LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt consists of:

	October 26, 1985	October 27, 1984
	(Thousands of Dollars)	
Three-Year Notes	$ 50,000	$ 50,000
9% notes — due 1985		25,000
Capitalized leases related to Industrial Revenue Bonds	14,900	7,085
	64,900	82,085
Less current maturities	566	25,390
	$ 64,334	$ 56,695

On August 30, 1985, the Company issued $50,000,000 of Three-Year Notes at an interest rate of 10.10%. The notes will mature on September 1, 1988. The proceeds from these notes were used to repay $50,000,000 of the Three-Year Extendible Notes redeemable at the Company's option on September 1, 1985.

The note agreements contain certain provisions and restrictions relating to limitations on liens, sale and leaseback arrangements, and funded debt. The Company is in compliance with all these covenants at October 26, 1985.

At October 26, 1985, the Company had unused lines of credit of $15,400,000 for short-term borrowing. The Company generally maintains average compensating balances for borrowings under each line of credit to a stated amount based upon bank ledger balances adjusted for uncollected funds, equal to 5% of the banks' commitments plus 5% of borrowings. A fixed fee is paid for the availability of each credit line above the stated amount. Based upon total bank commitments at October 26, 1985, the Company should maintain average compensating balances of approximately $330,000, which stated in terms of the Company's book balances is approximately $2,172,000. The difference is attributable to uncollected funds. During the year ended October 26, 1985, the Company maintained average collected balances of approximately $431,000 (all of which relates to its average unused lines of credit). Compensating balances are not restricted as to withdrawal.

Maturities of long-term debt for the five fiscal years subsequent to October 26, 1985 are as follows: 1986 — $566,000; 1987 — $1,102,000; 1988 — $50,366,000; 1989 — $524,000; 1990 — $363,000.

NOTE E — EMPLOYEE BENEFITS

Contributions to the Company's pension plans for 1985, 1984 and 1983 were $8,736,000, $13,040,000 and $16,850,000, respectively. The decreases in the Company's contribution and actuarial present value of accumulated plan benefits are due to changes in actuarial assumptions reflecting the establishment of a dedicated investment portfolio to pay the benefits for certain retirees in the exempt and non-exempt plans, an increase in interest rates (7% to 8½%) and a redetermination of the unfunded accrued liability to better relate it to future normal cost.

Accumulated plan benefit information, as estimated by consulting actuaries, and plan net assets for the Company's plans as of the latest valuation dates were:

	October 27, 1984	October 29, 1983
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits:		
Vested	$ 222,873	$ 238,039
Non-vested	6,355	5,971
	$ 229,228	$ 244,010
Net assets available for benefits	$ 249,590	$ 239,559

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits to retired employees. Persons who are working for the Company at the time of their retirement are eligible for health care and life insurance benefits providing they qualify for pension benefits. The cost of retiree health care and life insurance benefits is recognized as expense as claims are paid. For 1985, those costs totaled $8,288,000.

NOTE F — INCOME TAXES

The components of the provision for income taxes are as follows:

	1985	1984	1983
	(Thousands of Dollars)		
Current:			
U.S. Federal	$ 20,673	$ 13,864	$ 13,319
Foreign	58	64	175
State	2,520	1,838	1,493
	23,251	15,766	14,987
Deferred:			
U.S. Federal	9,225	7,431	7,313
State	644	593	570
	9,869	8,024	7,883
	$ 33,120	$ 23,790	$ 22,870

Included in the provision for deferred federal income taxes is the effect of timing differences for depreciation (1985 — $10,568,000; 1984 — $8,525,000; 1983 — $9,018,000).

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate follows:

	1985	1984	1983
U.S. statutory rate	46.0%	46.0%	46.0%
State taxes on income, net of federal tax benefit	2.4	2.5	2.2
Investment tax credits	(3.1)	(2.8)	(3.7)
All other, net	.9	(1.1)	.5
Effective tax rate	46.2%	44.6%	45.0%

NOTE G — MARKETING AGREEMENT

In September 1985, the Company entered into a two-year marketing agreement with FDL Foods, Inc., a meat processing company located in Dubuque, Iowa. During the term of the agreement, the Company's wholly-owned subsidiary, FDL Marketing, Inc., will purchase at cost, market and distribute the entire production of FDL Foods. The combined pre-tax income of FDL Foods and FDL Marketing will be divided between the subsidiary and FDL Foods. The agreement also gives the Company the option to purchase FDL Foods at any time during the two-year period.

Although FDL Marketing's operations were not material to the Company's consolidated financial statements for the current year, the Company expects them to be significant in 1986 and 1987.

NOTE H — ACQUISITION

On March 1, 1983, the Company acquired certain assets and liabilities of Farm Fresh Catfish Company, Inc., for $2,500,000. The acquisition was accounted for as a purchase.

NOTE I — LEASES

Rental expense and future lease commitments are not material.

NOTE J — CONSTRUCTION IN PROGRESS

The estimated costs to complete construction in progress at various locations at October 26, 1985 are approximately $13,140,000.

NOTE K — QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following tabulation reflects the unaudited quarterly results of operations for the years ended October 26, 1985 and October 27, 1984.

1985	Net Sales	Gross Profit	Net Earnings	Earnings Per Share
	(Thousands of Dollars)			
First Quarter	$ **357,155**	$ 71,161	$ 8,289	$ .43
Second Quarter	**353,623**	71,955	6,861	.36
Third Quarter	**360,909**	77,593	9,558	.50
Fourth Quarter	**430,548**	96,448	13,910	.72
	$ 1,502,235	$ 317,157	$ 38,618	$ 2.01
1984				
First Quarter	$ **352,440**	$ 72,589	$ 11,073	$ .58
Second Quarter	**342,411**	61,425	5,628	.29
Third Quarter	**356,409**	61,388	5,207	.27
Fourth Quarter	**403,267**	72,440	7,584	.39
	$ 1,454,527	$ 267,842	$ 29,492	$ 1.53

NOTE L — SUPPLEMENTAL INFORMATION ON THE EFFECTS OF INFLATION (Unaudited)

The following supplemental information is presented to comply with Statement No. 33 issued by the Financial Accounting Standards Board (FASB), "Financial Reporting and Changing Prices". The disclosures were developed for the purpose of measuring the effect of inflation on the operations of companies.

It is important that financial statement users understand that the disclosures attempt to measure the effect of inflation on Hormel. These figures are experimental in nature and should be used with caution in making comparisons with other companies since assumptions and methodology used in preparing the disclosures may vary among companies.

Traditional financial statements prepared using generally accepted accounting principles are based on transactions entered into and completed using the historical dollar and are not designed to show all the effects of inflation. The disclosures of FASB Statement No. 33 require adjusting the historical statement of earnings and certain assets and liabilities by the current cost method.

The current cost method used by the Company values fixed assets and inventories presently owned at their current cost at year-end. Depreciation expense and cost of products sold are based on these values.

The provision for income taxes included in the supplemental statement of earnings is the same as reported in the historical statement of earnings. Present tax laws do not allow deductions for higher depreciation adjustments for the effects of inflation. During periods of persistent inflation and rapidly increasing prices, such a tax policy frequently results in effective tax rates in excess of statutory rates.

Earnings Adjusted for Inflation under the Current Cost Method for the Year Ended October 26, 1985

	(Thousands of Dollars)
Earnings before taxes as reported in the historical Statement of Earnings	$ 71,738
Excess of adjusted depreciation over historical depreciation	(6,611)
Adjusted earnings before income taxes	65,127
Provision for income taxes as reported in the historical Statement of Earnings	(33,120)
Adjusted earnings	$ 32,007
Adjusted earnings per share	$ 1.67
Adjusted net assets at year-end	$ 386,378

ADJUSTED EARNINGS — CURRENT COST

Earnings adjusted for the current cost method are $32,007,000 compared to historical earnings of $38,618.000. The impact of inflation on the Company's earnings measured under the current cost method results primarily from the excess of current cost depreciation over historical depreciation. The cost of products sold is the same under current cost and historical cost methods because of the rapid turnover of meat inventories and the application of the LIFO inventory method for all other inventories.

Purchasing Power Gain Due to Net Monetary Liabilities Position

During fiscal 1985, the Company maintained a net monetary liability position, which means monetary liabilities (current liabilities and long-term debt) exceeded monetary assets (cash, accounts receivable and marketable securities). With prices increasing during 1985, the net monetary liability position resulted in a gain of general purchasing power of $2,739,000.

Increases in Current Cost of Inventories and Properties

Under current cost accounting, increases in specific prices of inventories and properties held during the year (including realized gains and losses on those sold or used) are not included in earnings but are presented separately. The current cost increase is reduced by the effect of general inflation measured by applying the annual rate of change in the CPI to the average current cost balances of inventories and properties. The increase in current cost for fiscal 1985 consists of the following amounts:

	(Thousands of Dollars)
Increase during 1985 in the value of inventories and property, plant and equipment in constant dollars	$ 13,880
Increase in current cost during 1985	1,460
Excess of increase in general price level over increase in current cost during 1985	$ 12,420

On October 26, 1985, current cost of inventory was $124,106,000 and current cost of property, plant and equipment, net of accumulated depreciation, was $329,023,000. Historical costs were $109,873,000 and $264,679,000, respectively.

COMPARISON OF SELECTED SUPPLEMENTAL FINANCIAL DATA ADJUSTED FOR EFFECTS OF INFLATION

	Year Ended in October				
	1985	1984	1983	1982	1981
	(Thousands of Dollars)				
Net sales:					
Historical	$ 1,502,235	$ 1,454,527	$ 1,417,705	$ 1,426,596	$ 1,433,966
Earnings:					
Historical	38,618	29,492	27,897	28,051	27,283
Current cost	32,007	23,906	23,391	28,976	30,101
Earnings per share:					
Historical	2.01	1.53	1.45	1.46	1.42
Current cost	1.67	1.24	1.22	1.51	1.57
Excess of increase in general price level over increase in specific prices of inventories and properties	12,420	13,372	3,064	5,485	24,012
Purchasing power gain from holding net monetary liabilities during the year	2,739	4,664	4,258	5,803	9,540
Net assets at year-end:					
As reported	311,605	283,362	263,861	245,570	226,741
Current cost	386,378	374,975	366,007	352,158	332,421
Cash dividends per share:					
Historical	.54	.52	.50	.48	.46
Adjusted for general inflation	.54	.54	.54	.53	.55
Market price per share at year-end:					
Historical	21.63	15.06	14.13	11.94	7.88
Adjusted for general inflation	21.20	15.30	14.87	13.00	8.95
Average consumer price index	320.2	309.1	296.8	287.1	268.5

ACCOUNTANTS' REPORT

To the Stockholders and Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the statements of financial position of Geo. A. Hormel & Company as of October 26, 1985 and October 27, 1984, and the related statements of earnings and earnings reinvested in business and changes in financial position for each of the three years in the period ended October 26, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Geo. A. Hormel & Company at October 26, 1985 and October 27, 1984, and the results of its operations and changes in its financial position for each of the three years in the period ended October 26, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Minneapolis, Minnesota
November 19, 1985

Ernst & Whinney

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Liquidity and Sources of Capital

Geo. A. Hormel & Company working capital at the end of fiscal year 1985 was $152,985,000. This compared to $106,332,000 in 1984 and $95,403,000 in 1983. Funds generated from operations were $76,574,000 in 1985, $64,656,000 in 1984, and $62,190,000 in 1983. These funds allow the Company to continue its long-term program of automation and renovation of production and distribution facilities and has been the principal source of funds to finance large capital expenditures during the past three years.

During the year, the Company repaid $25,390,000 current maturities of long-term debt due in 1985. Three-Year Extendible Notes, in the amount of $50,000,000 issued in September, 1982, were replaced with a private placement of Three-Year Notes at a more favorable interest rate of 10.10 percent.

Existing resources and anticipated funds from operations are expected to be adequate to meet cash requirements in 1986, including the funds necessary to take advantage of new business opportunities that may arise.

The ratio of current assets to current liabilities improved to 2.13 at the end of 1985. This compared to 1.73 and 1.70 at the end of 1984 and 1983, respectively, providing evidence of the strength needed to meet the cash requirements in the coming year.

Additions to property, plant and equipment in 1985 were $29,444,000, compared to $21,529,000 in 1984 and $15,709,000 in 1983. Although lower than the historical highs of 1981 and 1982, which included the building of the new Austin (Minn.) plant and a major addition at the Ottumwa (Iowa) plant, the capital expenditures emphasize the Company's dedication to continued modernization and automation of its manufacturing facilities. Principal additions during the year were in Austin; Ottumwa; Atlanta, Ga.; Fremont, Neb.; Stockton, Calif.; Algona, Iowa, and at the Farm Fresh Catfish Company, Hollandale, Miss.

A discussion of the estimated impact of inflation on the Company's financial statements may be found on pages 51 through 53 which contain supplementary information on inflation required by Financial Accounting Standards Board Statement No. 33, "Financial Reporting and Changing Prices."

Results of Operation

Sales and gross earnings in the meat packing industry are significantly influenced by the fluctuating cost of livestock and consumer demand for meat products. The following discussion analyzes material changes in the major items:

Fiscal Years 1985 and 1984

Fiscal 1985 was an extremely turbulent year in the meat packing industry. The entry of increasing numbers of low-cost producers and a corresponding decline in consumption of red meat products have intensified competition and weakened many commodity-oriented companies. The Company has made a major commitment to move away from the commodity-oriented pork slaughtering business and concentrate on further development of value-added, consumer-branded food products.

The record-setting performance of the Company takes on added significance considering the condition of the industry and the work stoppage at the Austin plant by Local P-9 of the United Food & Commercial Workers (UFCW) union which began August 17, 1985, and continued through the end of the fiscal year.

Sales increased by $47,708,000, or 3.3 percent, over 1984 to a record $1,502,235,000. Tonnage increased slightly despite a tonnage loss resulting from the discontinuance late in 1984 of a second-shift pork slaughtering operation in Austin. Sales increases of higher-margin, value-added, consumer-branded products offset the tonnage loss at the Austin plant.

Gross margin increased by $49,315,000, primarily as a result of favorable raw material prices, a con-

tinuing cost control program and increased efficiency and utilization of Company manufacturing facilities as a result of contingency planning for a possible Austin plant work stoppage.

After many months of negotiations between the Company and FDL Foods, Inc., Dubuque, Iowa, an agreement was signed making FDL Marketing, Inc., a wholly-owned subsidiary of Hormel, the exclusive marketer of FDL products. The agreement also provides Hormel the option to acquire FDL Foods, Inc., within a two-year period.

The effective tax rate in 1985 increased to 46.2 percent from 44.6 percent a year earlier. The increase includes adjustments to the income tax provision for the normal federal income tax audits for fiscal years 1981 through 1985 currently scheduled or in progress. Investment tax credit increased slightly which reduced the effective tax rate increase by .3 percent.

Depreciation in 1985 increased to $28,087,000 from $27,056,000 in 1984. The Company's commitment to automation and renovation of existing facilities is responsible for this increase.

Other income increased by $1,808,000 to $2,959,000 in 1985. This reflects higher yields of interest and dividends from Company investments.

Advertising expenses in 1985 increased by approximately 50 percent, or $23,763,000 to $70,702,000 from a year earlier in conjunction with the Company's move away from commodity items to value-added, consumer-branded products.

Fiscal Years 1984 and 1983

Sales increased by $36,822,000, or 2.6 percent, over 1983. Tonnage increased by 5.0 percent. The sales increase of value-added, consumer-branded products more than offset the dollar sales reduction resulting from the termination of a custom beef slaughtering agreement at Huron, S.D.; discontinuance of a second-shift hog slaughter line at the Austin plant, and a six-week interruption of pork processing operations in Ottumwa.

The increase in sales tonnage and the corresponding smaller increase in sales dollars reflect the decline in prices paid by consumers for Company products. These lower prices were a result of decreased raw material prices for the year, continued productivity improvement through technology and an ongoing cost reduction effort. These factors contributed to a strong gross margin increase.

In the last quarter of the year, two-year labor contracts were signed by all major Company locations with the exception of the Austin plant. These settlements, although lower than previous wage rates, are still among the highest in an industry that has experienced a decline in demand for its products for the third consecutive year and has seen the entry of a group of low-cost producers place even greater competitive pressure on already unsatisfactory margins in pork operations. Continued emphasis on technology and automation, combined with growth and promotion of value-added, consumer-branded food products, should enable the Company to compete effectively within the changing industry environment.

Fiscal 1984 interest expense decreased to $11,069,000 from $14,039,000. The reduction in interest reflects the increase of working capital to fund operations and the absence of major projects, such as the new Austin plant, which required substantial short-term borrowing in prior years.

The effective tax rate in 1984 declined to 44.6 percent from 45 percent in 1983 due to increased Domestic International Sales Corporation (DISC) earnings and final adjustments to the income tax provision resulting from the conclusion of normal federal income tax audits for fiscal years 1979 and 1980. These adjustments, which lowered the effective tax rate, were partially offset by a reduction in investment tax credit.

Depreciation in 1984 increased to $27,056,000 from $26,410,000 in 1983. The new Austin plant and the Company's commitment to capital expenditures for automation and renovation of existing facilities are primarily responsible for this increase.

Other income decreased to $1,151,000 from $3,684,000 in 1983. The 1983 income included a settlement of $1,100,000 related to the Corrugated Container Antitrust Litigation. In 1984, an increase in interest and investment income was offset by a revaluation of oil and gas investments.

Advertising expenses in 1984 increased by $14,329,000, or 43.9 percent, over 1983, further emphasizing the Company's long-term strategy to increase sales of value-added, consumer-branded food products.

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The accompanying financial statements were prepared by the management of Geo. A. Hormel & Company which is responsible for their integrity and objectivity. These statements have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances and, as such, include amounts that are based on our best estimates and judgments.

Geo. A. Hormel & Company has developed a system of internal controls designed to assure that the records reflect the transactions of the Company and that the established policies and procedures are adhered to. This system is augmented by well-communicated written policies and procedures, a strong program of internal audit and well-qualified personnel.

These financial statements have been examined by Ernst & Whinney, independent certified public accountants, and their report appears on page 53. Their examination is conducted in accordance with generally accepted auditing standards and includes a review of the Company's accounting and financial controls and tests of transactions.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent public accountants, management and the internal auditors to assure that each is carrying out its responsibilities. Both Ernst & Whinney and our internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the results of their audit work and their opinions on the adequacy of internal controls and the quality of financial reporting.

RW Schlange Jr

R.W. SCHLANGE
Controller

RL Knowlton

R.L. KNOWLTON
Chairman of the Board
President and Chief Executive Officer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